

# ANNUAL PERFORMANCE REVIEW

2018-19



SBP BANKING SERVICES CORPORATION

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# Annual Performance Review 2018-19



## Our Vision

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

## Our Mission

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

## SBP Banking Services Corporation

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# The Team

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## The Team Appreciates ...

and expresses gratitude for the significant support/guidance provided to it by the Managing Director SBP BSC, all Group Heads, Directors and others, including the Publications Review Committee of the Board and the Management Committee on Publications for their contribution.

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### List of Acronyms

AC&MFD	Agricultural Credit & Microfinance Department - SBP
ADC	Alternate Delivery Channel
AD	Authorized Dealer
AFU	Access to Finance Unit
AGPR	Accountant General Pakistan Revenue
AG	Accountant General
AML	Anti-Money Laundering
API	Application Program Interface
ATM	Automated Teller Machine
BACES	Biometric and Access Control System
BAFL	Bank Alfalah Limited
BCP	Business Continuity Plan
BDS	Banknote Destruction System
BOQ	Bill of Quantity
BPAS	Banknote Processing and Authentication System
BPR	Business Process Re-engineering
CAS	Currency Automation Strategy
CBA	Collective Bargaining Agent
CDNS	Central Directorate of National Savings
CFB	Cash Feeding Branch
CFT	Combating the Financing of Terrorism
CGA	Controller General of Accounts
CGSMF	Credit Guarantee Scheme for Small and Marginalized Farmers
CGS-SRE	Credit Guarantee Scheme for Small and Rural Enterprise
CIC	Currency-in-Circulation
CM	Chief Manager
CMH	Cash Monitoring Hub
CMS	Currency Management Strategy
CRRS	Control & Risk Rating System
CSR	Corporate Social Responsibility
DAP	Data Acquisition Portal
DDT	Duty Drawback of Taxes
DFG	Development Finance Group
DFID	Department for International Development
DFIs	Development Finance Institutions
DLTL	Drawback of Local Taxes and Levies
DMMD	Domestic Markets & Monetary Management Department
DSC	Defence Saving Certificate
EDI	Electronic Data Interchange
EFEs	Electronic Forms-E

EFS	Export Finance Scheme
EFT	Electronic Fund Transfer
ELMS	Executive Letter Management System
eQMS	Electronic Queue Management System
ERM	Enterprise Risk Management
FABS	Financial Accounts and Budgeting
FBR	Federal Board of Revenue
FEA	Foreign Exchange Adjudication
FEAD	Foreign Exchange Adjudication Department
FEOD	Foreign Exchange Operations Department
FERA	Foreign Exchange Regulation Act
FIA	Federal Investigation Agency
FX	Foreign Exchange
G2P	Government to Person
GDP	Gross Domestic Product
HBL	Habib Bank Limited
HoD	Head of Department
HOK	Head Office, Karachi
HR	Human Resource
HVAC	Heating, Ventilation, and Air Conditioning
IBA	Institute of Business Administration
IBSD	Internal Bank Security Department
IERS	Islamic Export Refinance Scheme
IH&SMEFD	Infrastructure Housing & Small and Medium Enterprises Finance Department
ILTFF	Islamic Long Term Financing Facility
ISD	Information Systems Department
IT	Information Technology
ITRS	International Transaction Reporting System
KM	Knowledge Management
LAMS	Learning Activities Management System
LoC	Line of Credit
LEAs	Law Enforcement Agencies
LTFF	Long Term Financing Facility
LTLD	Local Taxes and Levies Drawback
LUMS	Lahore University of Management Sciences
MCB	Muslim Commercial Bank
MCGF	Micro Credit Guarantee Facility
MFI	Micro Finance Institution
MIS	Management Information System
MoU	Memorandum of Understanding
NAB	National Accountability Bureau

NBMFCs	Non-Banking Microfinance Companies
NACTA	National Counter Terrorism Authority
NBP	National Bank of Pakistan
NFIS	National Financial Inclusion Strategy
NFLP	National Financial Literacy Program
NGOs	Non Governmental Organizations
NIBAF	National Institute of Banking & Finance
NIC	Notes-in-circulation
NIFT	National Institutional Facilitation Technologies
NPB	National Prize Bond
NSS	National Saving Scheme
PABX	Private Automatic Branch Exchange
PET	Physical Efficiency Test
PFI	Participating Financial Institution
PMYBL	Prime Minister's Youth Business Loan
PPRA	Public Procurement Regulatory Authority
PSE	Public Sector Enterprise
PSPC	Pakistan Security Printing Corporation
RHM	Risk Husking Mill
RSP	Rural Support Program
RTGS	Real-Time Gross Settlement
SBP	State Bank of Pakistan
SBP BSC	State Bank of Pakistan Banking Services Corporation
SGLA	Subsidiary General Ledger Account
SLR	Statutory Liquidity Requirement
SME	Small and Medium Enterprise
SMS	Short Message Service
SOPs	Standard Operating Procedures
SSC	Special Saving Certificate
UBL	United Bank Limited
UPVC	Un-Plasticized Poly Vinyl Chloride
VCB	Vacuum Circuit Breaker
WeBOC	Web-Based One Customs
WHT	Withholding Tax

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

Ever since its establishment in 2001, SBP BSC has evolved to become a vibrant organization and has been providing consistent operational support to SBP in achieving its strategic targets. Since assuming office in May 2019, I am pleased to note that SBP BSC has been contributing vigorously in implementing SBP's policies towards automation of currency management, digitization of banking services to governments, banks, and strengthening regimes of foreign exchange and development finance. In addition, the Corporation has been playing a dynamic role in the provision of procurement, healthcare, infrastructure and security services to all stakeholders in SBP and its subsidiaries.



It gives me great pleasure to note that SBP BSC has made substantial progress in banking operations keeping itself at par with the rapidly evolving automation in the industry. During the year, the Corporation initiated services for government revenue collection through Alternate Delivery Channels (ADCs). This has led to ease in taxpaying process for the public as well as swift reconciliation of Federal Board of Revenue (FBR) collection. On similar notes, the use of direct credit into customers' bank accounts for prize money related payments is enhancing efficiency and improving customer service.

Improving the currency management services with the use of technology is another commendable area of SBP BSC. The enhanced automation in currency management operations through the use and planned extension of Banknote Processing and Authentication System (BPAS) and the planned implementation of Banknote Destruction System (BDS) will lead to significant gains in handling huge volume of banknotes helping to ensure that better quality banknotes remain in circulation.

It is worthwhile to mention that SBP BSC has taken further steps towards improving coordination with other agencies of the country and customer service. In the area of foreign exchange, a substantial improvement for tracking and monitoring trade transactions by using Web-Based One Customs (WeBOC) and International Transaction Reporting System (ITRS) of SBP has helped in bridging various gaps. SBP BSC is pioneer in launching a paperless environment by implementing Knowledge Management Program in its Foreign Exchange Operations.

It is also a matter of satisfaction that during the year the Corporation continued to play significant role towards supporting various SBP policy programs, particularly for financial inclusion, refinance schemes for SMEs, Agriculture and Low-Cost Housing, besides managing SBP's Export Finance Scheme. The consistent performance of SBP BSC in achieving the targets set in the five-year National Financial Literacy Program is appreciable.

Considering the challenges in providing the support services in a large and diverse organization like SBP and its subsidiaries, the role and provision of procurement, medical, security, printing and property management services garners appreciation.

It will also be worthwhile to recognize the role of SBP BSC in organizing various sports activities, which ensured promotion of healthy environment for our employees. I would like to congratulate the Managing Director SBP BSC and his team for their achievements and assure my full cooperation and support to enable SBP BSC play its role in execution of SBP's policies and to achieve the overall goals of SBP. I am confident that the management of SBP BSC, with due support of SBP and the Board of Directors, will achieve all strategic objectives.

**DR. REZA BAQIR**

Governor  
State Bank of Pakistan

### **Message from Managing Director SBP Banking Services Corporation**

It gives me immense pleasure to present the Annual Performance Review of SBP Banking Services Corporation (SBP BSC) for FY19. The Corporation continued to achieve excellence in providing quality services to its customers and stakeholders in its diverse sphere of operations of banking services, currency management, foreign exchange, financial inclusion and support services.



SBP BSC made significant improvements in government tax collections through Alternative Delivery Channels (ADC) which extends the government collection to all commercial banks and payment of sales tax refunds through Electronic Fund Transfer (EFT) enabling direct credit to taxpayers's bank accounts. The usage of ADC has increased considerably during the last year and is expected to grow faster in the coming years with the induction of Micro Payment Gateway. In addition, SBP BSC made a transformational leap from one-cheque-per-person to one-cheque-per-bank system for various government accounts for pensions/salaries payments.

Modernization and automation of cash processing operations will continue and evolve with the use of high-end Banknote Processing and Authentication System (BPAS) at Karachi Office and its planned extensions. Additionally, SBP BSC is also procuring Banknote Destruction System (BDS) machines. These initiatives will pave way for overall improvements in the quality of currency in circulation, counterfeit detection while bringing overall efficiency in currency operations.

Establishing Electronic Data Interchange (EDI) with Customs Department, Government of Pakistan to enhance the monitoring of foreign exchange trade related operations and implementing automated case management system in foreign exchange operations under Knowledge Management Program are significant steps towards automation. This is besides implementing SBP policies related to trade, commercial and private remittances.

The support services provided by SBP BSC in procurements, property management, medical, printing and security remained at appreciable level despite the high magnitude and volume of these services. Moreover, the Corporation continued strengthening its HR hiring and capacity building through direct recruitment and local and foreign training programs.

I envision SBP BSC as an evolving organization with technology enabled business process re-engineering and consolidation measures. Formulation of first Strategic Plan 2021-25 will define our roadmap aligned with the objectives of SBP. On reshaping the business models, SBP BSC is evaluating the transfer of refinance operations to commercial banks while enhancing its offsite and onsite monitoring. Going forward, centralization of Issue zones and developing a centralized cash inventory management system will enable automation in currency accounting. AML/CFT regime will also be strengthened in the operations through procurement of Automated Name Screening Solution as well as through in-house development of Transaction Monitoring Mechanism. Establishing smart offices with better-automated functions and having greater regional outreach will help SBP BSC in increasing the implementation of development finance and initiatives like NFLP. I am confident that effective use of technology will be a great enabler in this vision.

I would like to thank the management team, officers and staff of SBP BSC for their unwavering efforts towards achieving the strategic objectives of the organization and I am confident that they will continue to strive with even greater enthusiasm and zeal. I acknowledge with deep appreciation the support and guidance of the Governor SBP and SBP BSC Board. I am confident that together with the support of our stakeholders, SBP BSC will achieve greater milestones in years to come.

**Muhammad Ashraf Khan**  
Managing Director  
SBP Banking Services Corporation

## **Executive Summary**

Annual Performance Review (APR) for FY 2018-19 presents progress towards achieving strategic objectives and performance goals of SBP Banking Services Corporation (SBP BSC) which conducts various operations including the provision of banking services to Government and banks, managing currency circulation in economy, implementing SBP's policy instructions regarding foreign exchange operations and expanding financial inclusion activities at the grass root level in the country.

Banking services to the Federal and Provincial Governments (including collection of revenues and payments on behalf of the government departments) are provided, through 16 countrywide Field Offices of SBP BSC and designated branches of National Bank of Pakistan and Bank of Punjab. FY19 showed an upward trend whereby a surge of around 16% was observed as total of 9.4 million Government transactions were carried out compared to 8.1 million in FY18. Moreover, SBP BSC collected Rs 9.3 billion during FY19 in terms of Zakat collection and disbursement, compared to Rs 7.4 billion collected and disbursed in FY18.

In order to facilitate the tax payers and to digitize the system of deposit of FBR taxes, collection through Alternate Delivery Channels (ADCs) was initiated alongwith several awareness and promotion sessions held with Chambers of Commerce and Industry at different cities which resulted in collection of Rs. 77,338 million in last quarter compared to Rs 1,057 million during same period of FY18.

SBP BSC achieved efficiency in business process of Government Payments by integrating Financial Accounting and Budgeting System (FABS) of Controller General of Accounts (CGA) with T24 system of SBP BSC. The integration provided enhanced internal control besides real time reporting and reconciliation of payment made against each cheque of Accountant General Pakistan Revenue (AGPR) and Accountant Generals (AGs) by different field offices. During FY19, the Bank also moved from one-cheque-per-person to one-cheque-per-branch model for military cheques issued by Controllers of Military Accounts and Naval Accounts as well as one-cheque-per-person to one-cheque-per-bank system for pensions / salaries for most government departments.

With the emergence of new enabling technologies, retail payment systems are being transformed to enable the public to pay and receive money in real time. SBP BSC in collaboration with SBP and consultant McKinsey developed a conceptual framework of G2P Payments in Micropayment Gateway. This Gateway will offer swift retail payments with advanced Application Programming Interfaces (APIs) and directory services, which will simplify the payment mechanism in the country. With the implementation of this critical retail payment infrastructure, SBP BSC expects rapid digitization of public/ private collections and payments.

Ensuring adequate supply of good quality machine-authenticated banknotes across the country is amongst the core responsibilities of SBP BSC. With the advent of new technologies and proliferation of the internet age, Pakistan is experiencing a significant increase in usage of online banking channels and reliance on plastic money. However, soaring Currency in Circulation (CIC) indicates that Pakistan is still very much cash centric economy. During FY19, SBP BSC continued its drive for improving the quality of currency notes in circulation through regular supply of fresh/re-issuable notes to commercial banks and other stakeholders, timely withdrawal of soiled notes and destruction thereof and propagation of Currency Management Strategy (CMS).

Efforts to promote the use of technology and mechanization of currency operations/cash management continued during the year under review. For enhanced monitoring of Currency Management Strategy

(CMS) at commercial banks, SBP BSC in coordination with Finance Department SBP operationalized comprehensive policy guidelines/framework by establishing Currency Management Hubs (CMHs) at Lahore, Karachi and Islamabad. These Hubs carried out examination of 223 Cash Processing Centers (CPCs), 222 Cash Feeding Branches (CFBs), 127 linked branches and 445 standalone branches across the country in FY19 to ensure issuance of good quality machine-authenticated currency notes by bank branches to public and other stakeholders.

Managing the huge influx of soiled/ unfit notes from banks/ public was one of the major challenges that SBP BSC encountered after the introduction of Currency Management Strategy. Since lifting of soiled notes from the economy is a perpetual process therefore, SBP BSC made continuous efforts to lift the balances in a timely manner. To avoid bottlenecks, SBP BSC Field Offices outperformed the amplified destruction targets assigned to them. During FY19, SBP BSC rolled out 2<sup>nd</sup> phase of Currency Automation Strategy (CAS), whereas the contract for procurement of four Banknote Destruction Systems (BDS) was awarded in January 2019, and 3<sup>rd</sup> phase was formally initiated in February 2019. As part of the 3<sup>rd</sup> phase, nine Banknote Processing and Authentication System (BPAS) and three BDS machines shall be procured.

In order to facilitate general public on religious occasions, issuance of small denomination fresh notes through SMS service (8877) was ensured. With augmented geographical coverage through 1,700 designated e-branches in 142 cities, SBP BSC facilitated 2.6 million people in aggregate during Ramzan 2019 as compared to 2.2 million in past year. To mitigate the downtime of ATMs on religious occasions dedicated teams were deployed and real time complaint management through social platforms was ensured.

It was a year of innovation across the institution. Since SBP BSC Field Offices also manage the sale, encashment and prize draws of National Prize Bonds on behalf of the Central Directorate of National Savings (CDNS), an efficient procedure was introduced for claiming prize money through commercial banks. SBP BSC has also undertaken further steps to facilitate the customers by introducing mechanism through which prize bond holders can now submit their prize money claims at designated commercial bank branches.

SBP BSC also operationalized the National Financial Inclusion Strategy (NFIS) of SBP; exceeding the targets set at the start of the year. During the year, through its Access to Finance Units (AFUs) at Field Offices, the Corporation conducted 481 activities comprising of 191 awareness programs, 52 capacity-building sessions, 56 focus group meetings, 20 Seminars and Workshops and 35 review meetings targeting various priority areas such as Agriculture, Microfinance and SME sectors, Islamic Banking, Women Entrepreneurship and Green Banking. Enhanced targets under the National Financial Literacy Program (NFLP) were successfully met as 9,876 classroom sessions were conducted resulting in the opening of 115,452 accounts. NFLP Street Theatres were rolled-out countrywide through SBP BSC Field Offices, 31 banks, and several partner institutions and proved to be a major initiative to increase financial inclusion. SBP BSC through its Field Offices disbursed a sum of Rs 901.5 billion among participating banks in the Export Finance Scheme (EFS). Further, refinance amounting to Rs 40.2 billion was disbursed to banks for SMEs under EFS and Rs 174.5 billion for Islamic Export Refinance Scheme (IERS). FY19 saw a notable increase in disbursements under the Long Term Financing Facility (LTFF) as BSC disbursed Rs -57.2 billion—a 37% increase from previous year. A further Rs 6.1 billion was disbursed to borrowers under the newly introduced Islamic Long-Term Financing Facility (ILTFF) through PFIs. Rs 1.5 billion was disbursed to borrowers under Financing Scheme for Renewable Energy through financing banks / Development Finance Institutes (DFIs). Similarly, 7,702 loans amounting to Rs 8.6 billion were processed for



guarantee issuance to 20 PFIs. Moreover, 88,869 transactions of 12 executing agencies (banks) related to Prime Minister Youth Business Loan (PMYBL) were processed for disbursement of subsidy amounting to Rs 1.3 billion.

In its foreign exchange regime, SBP BSC has automated the verification and scrutiny process of EE-1/EF-1 Statements. Additionally, the project for establishment of Electronic Data Interchange (EDI) with Pakistan Customs is underway, which is expected to facilitate in robust monitoring of trade transactions. In order to strengthen monitoring the project of 'Data Universe' for integration of data from Web-Based One Customs (WeBOC), International Transaction Reporting System (ITRS), Export Overdue Reporting System (EORS) and T-24 in a single platform has seen substantial progress. The first phase of the project was completed during the outgoing year, wherein data from ITRS and T-24 were successfully integrated. Also, the inward and outward FX transactions were thoroughly scrutinized, whereby more than 14,000 cases of commercial, private and trade related remittances were processed, strengthening Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime. As far as the cases against the delinquent exporters and importers are concerned, Adjudicating Courts of Foreign Exchange Adjudication Department (FEAD) decided 7,682 cases referred by FEOD during FY19. This resulted in all-time record realization of USD 175 million.

The dynamic nature of business at SBP and its subsidiaries demand provision of continuous support and efficient services in the areas of HR, Engineering Services, Procurement and Security services. During the outgoing year, SBP BSC inducted young graduates as well as experienced personnel at various hierarchical levels through structured external recruitments in order to optimally fill the skill and HR gaps due to attrition of employees opting for early retirement and resignations. Furthermore, the Bank trained 1,201 participants through National Institute of Banking and Finance (NIBAF) Islamabad and Karachi during FY19. Further, 316 participants were trained at prestigious domestic training institutions such as IBA, LUMS etc. whereas 11 participants attended foreign trainings for an insight into global best practices. SBP BSC enhanced efficiency in procurement services by assigning matrices for clear segregation of roles among various indenting departments, introduced benchmarks and timelines against each stage of procurement and developed an MIS for the same. The Bank completed various procurement projects primarily related to Cash Handling Machines, IT and Security-related equipment worth more than Rs 1,252 million. SBP BSC also made progress in terms of its infrastructure by completing construction of Residential Block at Quetta office. Furthermore, as part of alleviating financial claims of its contractors and consultants on mega projects, SBP BSC prepared a Contract Management Manual incorporating General Condition of Contract of International Federation of Consulting Engineers (FIDIC). Previously, the Bank was referring to standard bidding documents (Civil works) of Pakistan Engineering Council which also comprised of the Conditions of Contract of FIDIC for its building projects. SBP BSC also conducted Physical Efficiency Test (PET) of security personnel as an ongoing effort to strengthen the security measures at all of its premises.

Keeping in view the organizational objective of creating paperless environment through use of the latest technology, SBP BSC took various initiatives. The Corporation successfully implemented the automated case management system under the umbrella of Knowledge Management project in its Foreign Exchange Operations Department (FEOD). Going forward, the automated case management system is expected to be replicated in other departments of SBP BSC. Furthermore, SBP BSC also successfully initiated the practice of conducting the Board and its Committees meetings in a paperless environment. In this regard, a secure web portal was established through which relevant working papers are made accessible to members of the Board of Directors.

SBP BSC conducted its Annual Business Planning exercise for all departments and field offices where more than 400 developmental and operational projects were reviewed, rationalized and approved by the management. In order to assure independent and objective audit to all these SBP BSC operations, the Corporation internally conducted twenty-five full-scope annual audits. Moreover, the implementation of various audit projects like Alignment of Control and Risk Rating System with Enterprise Risk Management and Revision of Internal Audit Charter played a crucial part in establishing a strong introspective culture. As part of its Corporate Social Responsibility (CSR), SBP BSC offered summer and winter internship programs to students of major universities across Pakistan at Head Office in Karachi as well as the Field Offices. Various sports activities were also arranged for the employees of SBP, SBP BSC and NIBAF, which included tournaments of cricket, football, badminton and table tennis.

## About SBP Banking Services Corporation

SBP Banking Services Corporation (SBP BSC) was established in January 2002 as a wholly owned subsidiary of State Bank of Pakistan under the SBP Banking Services Corporation Ordinance 2001.

As an operational arm of the Central Bank, SBP BSC is engaged in managing currency and foreign exchange operations, providing banking services to the Federal/Provincial/Local Governments, financial institutions. It is also conducting development finance activities in support of Development Finance Group (DFG) of State Bank of Pakistan (SBP), implementing export refinance schemes, and sale/purchase of Prize Bonds including managing prize money draws. SBP BSC also handles sale/purchase of instruments of National Savings Schemes (NSS) and other functions assigned to it by SBP. Key priorities, elements of the strategic framework and Goals of SBP BSC are presented below:

Priorities	Strategic Framework	Goals
<ul style="list-style-type: none"> <li>• <i>Providing quality Banking Services to Governments and Banks</i></li> <li>• <i>Managing currency</i></li> <li>• <i>Promoting Digital Payments</i></li> <li>• <i>Promoting and implementing SBP policies</i></li> <li>• <i>Handling foreign exchange operations and adjudication</i></li> <li>• <i>Managing risks</i></li> <li>• <i>Nurturing organization's human resources.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Optimizing use of technology to enhance efficiency</i></li> <li>• <i>Devising a Strategic Vision for the organization through a Strategic Planning Process</i></li> <li>• <i>Continuing to act on behalf of State Bank of Pakistan</i></li> <li>• <i>Maintaining a sound financial and organizational footing</i></li> <li>• <i>Pursuing change management and organizational development policy.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Acquiring high level of satisfaction of stakeholders through:</i> <ul style="list-style-type: none"> <li>• <i>Improving efficiency</i></li> <li>• <i>Reducing processing/ reducing time</i></li> <li>• <i>Maintaining responsive attitude towards customers</i></li> <li>• <i>Improving effectiveness in SBP's policy implementation.</i></li> </ul> </li> </ul>

## **Governance Structure of SBP Banking Services Corporation**

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As a fully owned subsidiary of SBP, Banking Services Corporation, is governed through its board of directors chaired by Governor, SBP. The Managing Director appointed by SBP is the Chief Executive Officer of SBP BSC. Detailed organization chart is annexed at section 11 of this report.

### **Board of Directors**

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

The Board of Directors of SBP BSC is comprised of:

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

The members of Board of Directors of State Bank of Pakistan include SBP Governor, Finance Secretary and eight Independent non-executive Directors nominated by the Federal Government. SBP Governor acts as the Chairman of the Board. The Directors, at least one from each province, are appointed by the Federal Government. They are eminent professionals from the field of economics, finance, banking and accountancy. Managing Director (MD) is appointed by SBP as mandated by the SBP BSC Ordinance 2001.

## **Board of Directors**



### **Dr. Reza Baqir, Governor, Chairman Board of Directors and Chairman Monetary Policy Committee.**

Dr. Reza Baqir was appointed as the Governor SBP by the President of Pakistan on May 04, 2019 for a period of three years from the day he assumes the office of the Governor. He assumed his responsibilities on May 05, 2019.

Dr. Reza Baqir has eighteen years of experience with the IMF and two years with the World Bank. He was the Head of the IMF's Office in Egypt and Senior Resident Representative since August 2017. He has also held positions as IMF Mission Chief for Romania and Bulgaria, Division Chief of the IMF's Debt Policy Division, Head of the IMF delegation to the Paris Club, Deputy Division Chief of the IMF's Emerging Markets Division, IMF Resident Representative to the Philippines and numerous other positions.

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



### **Mr. Tariq Bajwa, (Governor, Chairman Board of Directors and Chairman Monetary Policy Committee from July 7, 2017 to May 4, 2019)**

A career civil servant by profession, Mr. Bajwa joined the Civil Service of Pakistan in 1981 and assumed various Secretariat, Field and Staff assignments, including, amongst others, General Manager PIA, Head of Pakistan's Trade Mission in Los Angeles, and Advisor Finance to the United Nations Development Program (UNDP). Mr. Bajwa also served as Chairman, FBR for over 2 years till October 2015, before his appointment as Secretary, Economic Affairs Division. He retired as Secretary Finance Division on June 18, 2017.

He holds a Master's degree in Public Administration from Kennedy School of Government, Harvard University, where he was awarded the prestigious Littauer Fellowship, and holds an LLB from the University of the Punjab, Lahore.



**Mr. Naveed Kamran Baloch (Member, Board since May 24, 2019)**

Secretary, Finance Division, Government of Pakistan is an ex-officio member of the Board. A civil servant with 34 years of experience in Public Administration. He has served the federal and provincial governments in various positions. Mr. Baloch holds MSc in Social Policy and Planning in Development Countries from London School of Economics, UK. Prior to his present posting, he had been posted as Secretary, Cabinet Division and Chief Secretary, Khyber Pakhtunkhwa. He also remained Federal Secretary, Ministry of National Health Services, Regulation & Coordination, Government of Pakistan as well.



**Mr. Mohammad Younus Dagha (Member, Board from March 22, 2019 to May 23, 2019)**

Secretary, Finance Division, Government of Pakistan, Mr. Younus Dagha is a career civil servant who joined Government Service in 1985. He possesses a strong portfolio of public administration in varied fields, including energy, finance, commerce, international trade and public administration. Mr. Dagha holds postgraduate degrees in Business Administration, Economics, Law and Commerce equipping him with required academic background to adeptly manage multifaceted assignments in his career. He is also credited with conceiving and successfully executing a plan to bring back the local and international investors' interest in the development of the Thar coalfield, a joint venture between the Government of Sindh and Engro, known as Sindh Engro Coal Mining Company.



**Mr. Arif Ahmed Khan (Member, Board from January 9, 2018 to March 21, 2019)**

Secretary, Finance Division, Government of Pakistan a civil servant with 35 years of experience in Public Administration. He has served the federal and provincial governments in various positions. Mr. Khan holds a Masters in Public Policy from Concordia University, Canada. Before joining Finance Division, he served as Secretary Economic Affairs Division, Secretary Interior and Secretary, Climate Change. Mr. Khan has served as Additional Chief Secretary, Planning and Development Department, Government of Sindh. He was Secretary Finance for the Government of Sindh during 2012-13. Prior to that, he remained Home Secretary to the Government of Sindh for three and a half years.



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

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

*\*Earlier Dr. Tariq Hassan served as a member SBP BSC Board from March 22, 2016 to March 21, 2019.*



**Hafiz Mohammad Yousaf (Member, Board from March 22, 2016 to March 21, 2019)**

A Chartered Accountant by profession with experience of over 30 years. He had served as Member SECP Board and President, Institute of Chartered Accountants of Pakistan, besides holding other important responsibilities. He is Fellow member of Institute of Chartered Accountants of Pakistan.



**Mr. Zubyr Soomro (Member, Board from March 22, 2016 to March 21, 2019)**

Educated at the London School of Economics and SOAS, Zubyr Soomro has been a career international banker with over 30 years at Citibank with assignments in the Middle East, Turkey, UK and Pakistan. In 1997, he was appointed as Chairman and President of United Bank and tasked with restructuring it for Privatization. He also remained country head of Citibank's Pakistan franchise. He has been Chairman/ President of Pakistan Banks Association, American Business Council, OICCI and Pakistan Microfinance Investment Company. Currently, he is on the Boards of Acumen, Grameen Foundation USA, EFG Hermes, LRBT and Aitchison College.



**Khawaja Iqbal Hassan (Member, Board from March 22, 2016 to March 21, 2019)**

A seasoned banker who established a commercial bank and a leading investment banking firm, with 35 years' experience in the financial sector. He is serving on the Boards of prominent public and private enterprises. He has also served on many Task Forces established by the Government of Pakistan. Mr. Hassan was awarded the Sitara-i-Imtiaz for his meritorious contributions to the national interest.



**Mr. Ardeshir Khursheed Marker (Member, Board from March 22, 2016 to March 21, 2019)**

A businessman by profession, Mr. Ardeshir Khursheed Marker is partner and Director at Green Bean Coffee Company Ltd. He is also a partner in Merck Marker (Pvt.) Ltd and manages its financial and business development areas. Mr. Marker holds a Masters Degree in Economics from the London School of Economics.



**Mr. Mohammad Riaz (Member, Board from March 22, 2016 to November 14, 2018)\***

A public servant of long standing, Mr. Mohammad Riaz served as Secretary, National Assembly of Pakistan. He has successfully undertaken various assignments at the Federal Board of Revenue in the capacity as Member, Director General and Head of the Customs & Excise. Mr. Riaz has also served as Counsel General of Pakistan at Turkey and Commercial and Economic Counselor at Embassy of Pakistan in France. He holds a Masters Degree in Development Economics from Williams College, USA.

*\*Resigned from the SBP BSC Board with effect from November 14, 2018.*





**Mr. Sarmad Amin (Member, Board from March 22, 2016 to March 21, 2019)**

A progressive entrepreneur and a businessman, Mr. Sarmad Amin is a member of Lahore Chamber of Commerce and Industry (LCCI) and All Pakistan Textile Mills Association (APTMA). He has remained Vice President of LCCI and member Executive Committee of APTMA. Presently, Mr. Amin is Chairman of Samin Textiles Limited besides being member of the Boards of several conglomerates. He is also honorary Consul of the Republic of Austria for Pakistan. He graduated from the University of the Punjab, Lahore.



**Mr. Atif R. Bokhari (Member since November 14, 2018)**

Mr. Bokhari is a seasoned banker of the country. He was President and CEO of the United Bank Limited from 2004 to 2014. Earlier, he has served in Habib Bank Limited, Bank of America and ICI Pakistan Limited. Mr. Bokhari was Chairman on the Board of UBL Switzerland AG and UBL Bank (Tanzania) Limited. He was member on the governing bodies of United Bank UK, Karachi School of Business & Leadership and World Economic Forum. Mr. Bokhari did Masters in Business Administration from Central Missouri State University, USA.



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

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



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

Mr. Ali Jameel is the CEO of TPL Corp Ltd. He is also the director of TRG Pakistan Ltd. Formerly Mr. Jameel was the Chief Executive of Jahangir Siddiqui Investment Bank. He has also held several advisory positions in Board of Investment, Economic Advisory Council, Pakistan's information technology and telecommunication sectors, including appointments on the task Force on Telecom Deregulation, the Fiscal Incentive Group on the IT Commission and the Task Force on Venture Capital. Mr. Jameel received his B.Sc degree in Economics from London School of Economics. He is also an Associate Member of the Institute of Chartered Accountants in England & Wales and qualified in 1994 at KPMG Peat Marwick in London.



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

Mr. Saleem Sethi is a retired Federal Secretary of the Government of Pakistan. He belongs to the Pakistan Audit & Accounts Service. He possesses a diverse experience of 36 years in the field of public finance, policy formulation and audit. During his illustrious carrier, he served as secretary Finance in Government of Baluchistan, AJK and as DG Controller General of



Account's besides various other important positions. He served as Secretary Economic Affairs Division where some of his key accomplishments include negotiating and finalizing Country Assistance Strategy with IFIs including Asian Development Bank, World Bank and Asian Infrastructure Investment Bank. A critical aspect of the responsibility was mobilizing external inflows under multilateral and Government to Government arrangements.

During his career, he has served as Executive Director at the Board of Islamic Development Bank (IDB) and remained on the Audit Committee of the board. Mr. Sethi has also been the Senior Advisor Middle Eastern Constituency at the Executive Board of the IMF, Washington DC. Mr. Sethi possesses a unique expertise and pioneered launching of the first five issues of GoP's (Euro Bond) in the International Capital Markets, which included Securitization of PTCL and Exchangeable Bonds.

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

**Mr. Muhammad Ashraf Khan (Managing Director SBP BSC)**

Mr. Muhammad Ashraf Khan assumed the Office of the Managing Director of SBP BSC on 1<sup>st</sup> February 2019. During his distinguished career spanning over 31 years at SBP, he has held several key positions which include Executive Director, Banking Policy & Regulations and Development Finance Groups. Prior to being appointed as the Managing Director SBP BSC, Mr. Khan was serving as the CEO of Export Import Bank of Pakistan (EXIM Bank).



He has represented SBP in various high-level policy-making forums (local and international) dealing with bilateral institutions vis-à-vis IMF, IDB, ADB, World Bank, DFID, USAID, IFC, etc. on various spectrums, besides being in advisory position in Banking Policy at the Saudi Arabia Monetary Authority (SAMA), Saudi Arabia. He is currently on the Board of Directors of SBP BSC, National Institute of Banking & Finance (NIBAF) and Pakistan Security Printing Corporation (PSPC).

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

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# 1 Banking Services to Governments and Banks

*As a statutory obligation on behalf of State Bank of Pakistan (SBP), SBP Banking Services Corporation carries out operational work as Banker to Governments and Banks through its 16 Field Offices and a wide network of 224 authorized branches of National Bank of Pakistan (NBP). Besides Bank of Punjab (BoP) is also providing collection services to the Government of Punjab. SBP BSC Accounts Department oversees these operations by providing comprehensive policy guidelines to the field offices. In addition, Accounts Department prepares Annual Accounts of the Corporation, while also managing and monitoring its budget making process.*

## 1.1 Overview

Banking services to government and banks is one of the main functions of SBP BSC, which aims at ensuring effective and efficient delivery of banking services to all its stakeholders. Therefore, coordination with external stakeholder i.e. Government Departments, banks, general public, NIFT and ILink for ensuring efficient and secure flow of funds in the banking system is an important task performed by SBP BSC.

## 1.2 Banker to the Government

In terms of Section 21 of SBP Act 1956, State Bank of Pakistan performs the function of Banker to the Government. Under clause 15(3) of the SBP BSC Ordinance 2001, SBP BSC has been inter-alia entrusted with the responsibility of collecting revenues and making payments on behalf of Federal and Provincial Governments through its field offices and Accounts Department.

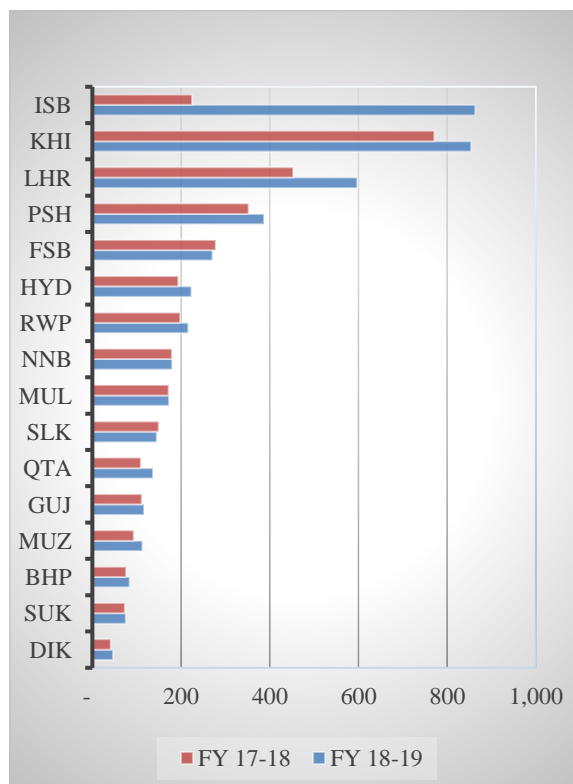
### 1.2.1 Collection of Government Revenue

SBP BSC provides revenue collection services to Federal and Provincial Governments, which includes tax and non-tax revenues. The primary stakeholders in this regard are Federal Board of Revenue (including Internal Revenue Services - IRS, and Pakistan Customs), Punjab Revenue Authority, Sindh Revenue Board, KP Revenue Authority, Baluchistan Revenue Authority, Azad Jammu & Kashmir Government, Excise and Taxation Departments, Food Departments, Pakistan Railways, Central Directorate of National Savings etc.

During FY19, the total number of transactions pertaining to the Government collection carried out by the SBP BSC Field Offices was 4.5 million as compared to 3.5 million transactions in the preceding year showing an increase of 29%.

**Table 1.1: Number of Receipt Transactions FY19 and FY18 (Office-wise)**  
(Number of Transactions in '000)

Field Office	FY19	FY18	% change
Islamabad	863	224	285%
Karachi	854	771	11%
Lahore	597	453	32%
Peshawar	387	352	10%
Faisalabad	271	278	-3%
Hyderabad	223	194	15%
Rawalpindi	216	198	9%
N.Nazimabad	180	179	1%
Multan	173	172	0%
Sialkot	145	150	-3%
Quetta	137	109	25%
Gujranwala	116	111	4%
Muzaffarabad	113	93	21%
Bahawalpur	84	76	11%
Sukkur	75	73	3%
D.I.Khan	46	42	11%
<b>Total</b>	<b>4,480</b>	<b>3,475</b>	<b>29%</b>



**Figure 1.1: Number of receipt transactions in FY19 & FY18**

### 1.2.1.1 Collection for Federal Board of Revenue

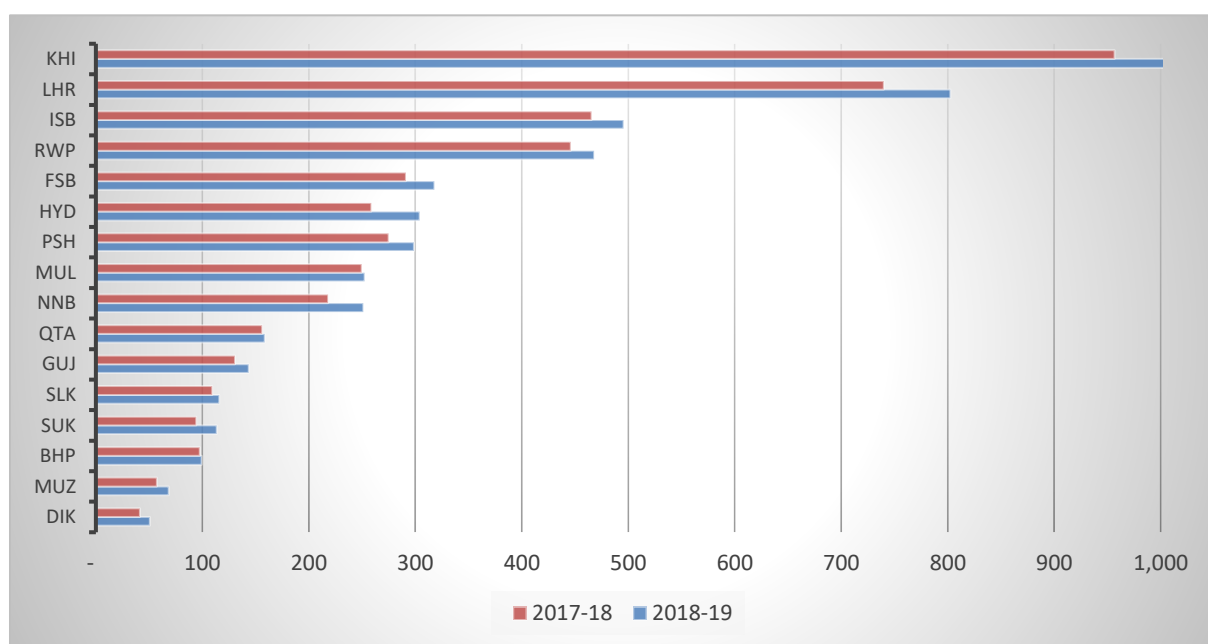
Another function performed by SBP BSC is collection, consolidation and reporting of FBR taxes. The FBR tax revenue collected by SBP BSC Field Offices and the network of NBP branches on behalf of the Government and credited to the relevant accounts during the year was around Rs 3,868.4 billion. The summary of FBR receipts and payments (refunds) for the last three years is given as under:

Table 1.2: Yearly amount of FBR receipts and payments (refunds) (Rupees in billion)						
Tax Type	Receipts			Payments		
	FY 17	FY 18	FY 19	FY 17	FY 18	FY 19
Sales Tax	1,332.3	1,522.6	1,450.4	43.8	70.1	21.3
Federal Excise	1,333.4	1,539.1	1,461.2	0.2	0.6	0.1
Customs	197.4	205.9	226.1	12.8	14.9	17.1
Income Tax	531.7	648.8	730.7	19.2	19.2	33.2
<b>Total</b>	<b>3,394.8</b>	<b>3,916.4</b>	<b>3,868.4</b>	<b>76.0</b>	<b>104.8</b>	<b>71.7</b>

### 1.2.2 Making Payments on behalf of Government

SBP BSC also makes payment on behalf of Federal and Provincial Governments, which includes salaries, pension, vendor/supplier payments, debt repayments etc. The primary stakeholders in this regard are Accountant General for Pakistan Revenue (AGPR), Accountant Generals of provinces, Finance Division/Departments, Pakistan Railways, Central Directorate of National Savings, Pakistan Post, Food Departments, etc.

During FY19, the total number of transactions pertaining to the Government payments carried out by



**Figure 1.2: Number of Payment Transactions in FY19 and FY18**

the SBP BSC Field Offices was 4.9 million as compared to 4.6 million transactions in FY18 showing an increase of 6.5%.

### 1.2.3 Transactions and Balances

The management & reporting of accounts of Federal & Provincial Governments is one of the main responsibilities of SBP BSC. Data pertaining to Government transactions carried out in various accounts is reported to respective stakeholders i.e. Accountant General of provinces, Accountant General Pakistan Revenue, Pakistan Railway and other Departments on daily / periodic basis. The daily position of Federal Government balances is also provided to the Finance Department of State Bank of Pakistan for onward circulation to relevant stakeholders.

The total number of Government transactions increased from 8.1 million in FY18 to 9.4 million in FY19 showing an increase of 16%.

The yearly trend of Government transactions processed by SBP BSC offices is given at **Table 1.3**.

**Table 1.3: Number of Government Transactions (yearly trend)**  
(Number of Transactions in '000)

Financial Year	Number of Government Transactions
<b>FY19</b>	9,426
<b>FY18</b>	8,063
<b>FY17</b>	7,046
<b>FY16</b>	8,011
<b>FY15</b>	7,062

**Figure 1.3: Number of Payment Transactions in FY19 and FY18**

#### 1.2.3.1 Reporting of Zakat Balances

SBP BSC plays an important role in Zakat collection, disbursement and reporting of its balances. During the year under review, the total collection of Zakat was Rs 9,256 million as compared to Rs 7,382 million collected last year showing an increase of 25.4%.

### 1.3 Banker to the Banks

State Bank of Pakistan also performs the role of Banker to the Banks. In order to contribute towards this role, SBP BSC, vide its 16 Field Offices maintains current and SGLA accounts of all scheduled banks and NBFIs. These accounts facilitate banks in maintaining their cash and liquidity reserves (CRR and SLR) as required under Banking Companies Ordinance, 1962 as well as to meet the monetary policy and risk management objectives of SBP as allowed in Section 36 (2) of SBP Act 1956. Interbank settlement of commercial banks is also carried out through these accounts. Further SBP BSC Field Offices provide remittance/online transfer facilities to Banks so that they can efficiently manage their liquidity requirements. During the FY19, 6,452 online transfers were allowed to banks amounting Rs 4,692 billion.

### 1.4 Payment System Support (PSS)

An efficient payment and settlement system is a key component of the financial and banking infrastructure. It contributes towards the stability of the financial sector by facilitating smooth functioning of financial and banking institutions. Moreover, its effectiveness also contributes towards economic growth by reducing the transactional cost and time substantially.

In recent years, the speed and pace of developments in information technology have played a critical role in improving the level of sophistication of payment and settlement systems. Being cognizant of these developments and contribution of PSS to financial stability, State Bank of Pakistan has been actively working to reform the Payment and Settlement system in the country. Number of developments have been carried in both the Retail Payment System and Real Time gross Settlement System. To perform banking functions on behalf of State Bank, SBP BSC focuses on stability and efficiency of the Payment and Settlement System.

#### 1.4.1 Clearing and Settlement Services

The clearing of transactions is one of the major functions of payment system and SBP BSC has actively contributed in the development of automated clearing services in the country. For this purpose, clearing arrangements have been outsourced to National Institutional Facilitation Technologies (NIFT), through execution of an agreement. NIFT deals, directly, with every branch in 27 major cities and adjoining 357 Industrial and Commercial towns. 43 banks and their 12,294 branches avail NIFT clearing services. Accounts Department oversees the automated processing of financial instruments carried out by the NIFT.

The clearing services offered by NIFT include:

- Overnight clearing
- Same Day / High Value Clearing
- Inter City clearing
- Countrywide Local US Dollar Clearing
- Special Clearing

During FY19, the total number of instruments processed through NIFT were 59 million as compared to 64.7 million during the previous year.

Table 1.4: Number of instruments processed in clearing during FY19 and FY18 (in '000s)			
Sr. No.	Clearing service	FY 19	FY 18
1	Normal clearing / Return	56,165	60,667
2	Same Day Clearing	1,032	1,035
3	Inter City clearing	1,691	2,870
4	Dollar clearing	14	16
5	Special clearing	134	125
<b>Total</b>		<b>59,036</b>	<b>64,713</b>

## **1.5 Major Achievements**

### **1.5.1 Government Collection through Alternate Delivery Channels (ADCs)**

The project for FBR collection through ADCs was initiated from March, 2018; however, collection under this mechanism remained very low. Accordingly, SBP BSC made dedicated efforts under following major categories to familiarize taxpayers with this facility:

- **Awareness among taxpayers**  
Numerous sessions were arranged with Chambers of Commerce and Industry and presentations were delivered to create awareness among business community regarding this mechanism. Further, banking staff of SBP BSC Field Offices was guided to provide information to general public visiting offices regarding this mechanism.
- **Awareness among bankers**  
Meetings were arranged with banks to deposit their own taxes through this mechanism and constant follow-up was maintained. Resultantly, deposit through instrument based mechanism was reduced from about 1771 cheques in March 2019 to 218 cheques in June 2019 i.e. 88% decrease.
- **Initiation of ADC collection for Government of Punjab (GoPb).**  
Mechanism was designed and implemented for collection of GoPb in coordination with Finance Department SBP, Payment Systems Department SBP and Information Systems Department SBP and same was launched in Dec 2018.
- **Initiation of Over the Counter (OTC) collection facility by Banks for ADC collection.**  
To facilitate corporate tax deposit and to give tax payers the option for human interaction, OTC facility was introduced whereby all bank branches were advised to accept FBR collection through ADC. This initiative was greatly appreciated across the board.
- **Examination of Commercial Bank Branches.**  
To ensure availability of OTC facility across all bank branches, an examination exercise was carried out through SBP BSC Field Offices whereby 1,034 branches of commercial banks were examined.

As a result of all the aforementioned efforts, approximately Rs 171 billion were collected through ADCs during FY19.

### **1.5.2 Automation in Processing of AGPR/AGs Payments**

The payment process for cheques issued by AGPR and AGs has been automated through developing system connectivity with these departments resulting in significant efficiency.

### **1.5.3 New Design Payment Instruments**

All the paper-based financial instruments of SBP BSC (i.e. HOK Cheques, Cheques for Commercial Banks, Payment Orders, Government Drafts and Bank Drafts) have been re-designed to present a modern look while complying with the security features relevant standards. Additionally a review of security features was carried out and several security features were added thereby making SBP BSC instruments more secure.

### **1.5.4 Banking Forum**

To establish a mechanism for continuous improvement through discussions and dialogue, a Banking Forum has been established within SBP BSC. This forum aims at deliberation on operational matters, review of business processes and suggestions for improvements, discussion on frequent banking related audit observations and to develop plans for their mitigation, sharing of knowledge and experiences, improve communication and coordination among HOK and Field Offices and to review International Best Practices.

### **1.5.5 Reduction in Cash Payments**

During the year, a process has been initiated to reduce cash payments to Government Departments at SBP BSC counters. For this purpose, detailed deliberations are underway with Accountant General Khyber Pakhtunkhwa, Balochistan and Punjab to design a mechanism for payment in their bank accounts through SBP BSC.

Further, during the year, with the coordination of the office of Accountant General (AG) Sindh, manual pension payments at Hyderabad office have been eliminated by conversion to Direct Credit System. This initiative brought 50% reduction in the average number of payment instruments at Hyderabad office. Accounts Department is coordinating with AG offices of other provinces to further reduce cash payments to bring it to minimal.

### **1.5.6 Improvements in Payment Processes**

- Through fixation of clearing return time for SBP BSC Field Offices, saving of around 1-2 hours in the overall clearing cycle time has been achieved.
- With a view to improve security of Income Tax Refunds, FBR was approached to convert their payment mechanism from vouchers to cheques. As a result of continuous follow-up, vouchers have been discontinued at 9 out of 14 Field Offices where refunds are handled.
- With improved controls, turnaround time at cash counters for government payments has been reduced.

### **1.6 Future Outlook**

Besides assisting in development and operation of efficient, effective and secure payment system in the country, SBP BSC aims to continue its contributions towards the role of Banker to the Government and Banker to the Banks. In this regard, its primary focus is on Business Process Reengineering through consultative approach between various stakeholders and development of inter-departmental IT connectivity. SBP BSC plans to do away with manual processes, which are not only time consuming but also costly, using information technology and business process re-engineering, for the benefit of SBP BSC/SBP as well as our primary stakeholders i.e. general public, Governments and banks. In order to achieve this objective SBP BSC is working with other stakeholders for enhancing scope of ADCs for collection of government revenues, using platform of Micro Payment Gateway for government payments and shifting payments through cheques to Electronic Fund Transfer.



## 2 Currency Management

*Currency Management is one of the core operational areas of SBP BSC as it deals with printing, distribution, management and withdrawal of banknotes and coins - including National Prize Bonds and Premium Prize Bonds. These functions are undertaken through 16 SBP BSC Field Offices and 224 NBP Chest branches falling under the jurisdiction of four Issue Circles.*

*The primary focus of Currency Management is to manage end-to-end distribution of good quality notes in circulation and disposal of soiled banknotes. We endeavor to match the cash handling procedures in the country with international best practices to set a benchmark for the industry to evolve and employ globally trusted technologies for managing currency operations in Pakistan.*

### 2.1 Overview

SBP BSC strives to ensure implementation of policies and guidelines relating to currency management and government saving schemes issued by the State Bank of Pakistan (SBP) and Central Directorate of National Savings (CDNS). For effective management and execution of the delegated functions, we

require close coordination with SBP, Pakistan Security Printing Corporation (PSPC), Pakistan Mint and CDNS. Accordingly, we endeavor to:

- i) Judicious and smooth distribution of good quality banknotes and withdrawal of soiled notes through our office branch network, NBP chest/sub-chests and commercial banks;
- ii) Operational management of government saving schemes and winning prize arrangements for National and Premium Prize Bonds;
- iii) Arrange for timely printing and effective stock management of currency notes and prize bonds in coordination with Pakistan Security Printing Corporation (PSPC);
- iv) Issuance of comprehensive instructions to Office(s) network for effective implementation of SBP's Currency Management Strategy (CMS). Furthermore, propose new developments for aligning of currency management framework with international best practices,
- v) Effective implementation of CMS through rigorous on-site examinations and monitoring by Cash Monitoring Hubs (CMHs) across Pakistan.

#### Box 2.1: Achievements during FY19

- Onsite examination of 1,027 branches of commercial banks through Cash Monitoring Hubs (CMHs) for monitoring the implementation of Currency Management Strategy (CMS).
- Record destruction of 2.4 billion pieces of soiled banknotes at SBP BSC Field Offices.
- Issuance of fresh cash through '8877' SMS-based service to over 3 million people.
- Direct credit of all prize money and face value of winning National Prize Bonds (NPBs) into claimant's bank account.
- Facility to lodge prize money claim at designated branches of commercial banks.
- Internal and external stakeholders' satisfaction through issuance of guidelines and initiation of project for installation of Electronic Queue Management System (EQMS) across SBP BSC Field Offices.
- Business Process Reengineering (BPR) in manual and system operations through successful completion of around 15 BPR projects aiming to improve customer service.

The objective of all this is to maintain/ improve the quality of currency notes in circulation and to enhance our counterfeit detection capabilities. Moreover, we have also aligned our operational capabilities to complement SBP's CMS. For this purpose, SBP BSC has embarked on the journey of automating its currency handling/ processing practice by introducing Currency Automation Strategy (CAS). Thereby, different SBP BSC offices are being equipped with state-of-the-art Banknote Processing & Authentication Systems (BPAS) with automated destruction for higher denominations, and fully automated off-line Banknote Destruction Systems (BDS) for lower denominations. In addition, our branch network routinely arranges multiple awareness sessions on banknote security features for the general public at multiple locations/ forums across the country. The ambit of the training sessions was broadened to include orientation sessions with visually impaired persons. During the current year, we specifically included a number of such sessions to educate differently abled members of our society on the security features of Pakistan's currency notes.

## 2.2 Circulation of Banknotes

Pakistan's economy is very much cash-centric despite ongoing developments in usage of online and point-of-sale banking and payment channels in line with the global advancement and increase in internet usage. This behavior is evident from the ever increasing Notes-in-Circulation (NIC), as per trends presented in **Table 2.1**. The annual growth in NIC during FY19 was 13.4 percent. The NIC as a percentage of Gross Domestic Product (GDP) stood at 13.8 percent in FY19. This implies that close to fourteen percent of GDP is circulating as cash in the economy.

Years	Nominal GDP (MP) <sup>1</sup>	Notes In Circulation (NIC) <sup>2</sup>	NIC as % of GDP	NIC (%) Change Over Previous Year
FY12	20,046,500	1,785,523	8.9%	9.9%
FY13	22,385,657	2,052,850	9.2%	15.0%
FY14	25,168,805	2,312,641	9.2%	12.7%
FY15	27,443,022	2,726,621	9.9%	17.9%
FY16	29,075,633	3,424,646	11.8%	25.6%
FY17	31,922,303	4,167,247	13.1%	21.7%
FY18	34,618,576	4,689,514	13.5%	12.5%
<b>FY19</b>	<b>38,558,769</b>	<b>5,319,186</b>	<b>13.8%</b>	<b>13.4%</b>

<sup>1</sup> Pakistan's GDP ([http://www.sbp.org.pk/ecodata/GDP\\_table.pdf](http://www.sbp.org.pk/ecodata/GDP_table.pdf))

<sup>2</sup> Statement of Affairs—June 28, 2019 (<http://www.sbp.org.pk/publications/statements/2019/28-Jun-2019-issue.pdf>)

## 2.3 Issuance of Fresh Notes

Our main focus area is ensuring availability of good quality banknotes across the country. This, we achieve, through prompt and smooth supply of fresh cash during the year, especially on religious festivals to ensure provision of fresh cash to all stakeholders. This distribution is undertaken through active and timely coordination between our 16 SBP BSC offices, NBP Chest Branches and commercial bank branches across the country. As per data presented in **Table 2.2**, moderate increase has been observed in FY19, both in terms of pieces and value both for higher and lower denominations.

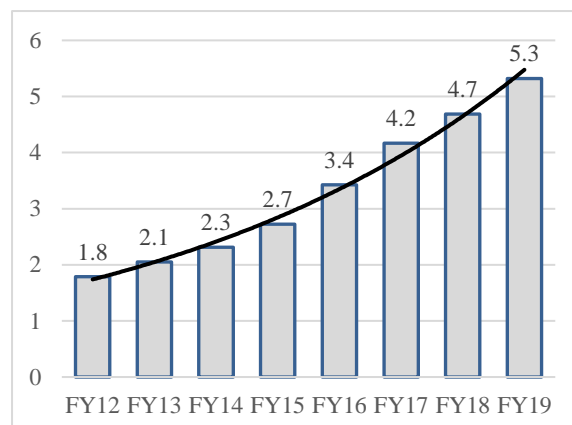


Figure 2.1: Notes in Circulation (in trillions)

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

Year	Lower Denomination (Rs. 100 & Below)				Higher Denomination (Rs. 500 & Above)			
	Pieces	%age Increase	Value	%age Increase	Pieces	%age Increase	Value	%age Increase
FY13	1,246		44,800		530		475,000	
FY14	1,727	38.6	53,262	18.9	458	(13.6)	436,736	(8.1)
FY15	1,254	(27.4)	42,217	(20.7)	475	3.7	496,002	13.6
FY16	1,906	52.0	62,011	46.9	704	48.3	849,335	71.2
FY17	2,529	32.7	79,008	27.4	610	(13.4)	902,452	6.3
FY18	2,341	(7.4)	71,926	(9.0)	837	37.2	1,128,042	25.0
FY19 <sup>3</sup>	2,473	5.6	77,301	7.5	880	5.1	1,226,150	8.7

### 2.3.1 Fresh Notes distribution on Eid

The '8877' SMS-service launched by SBP BSC in 2015 for issuance of smaller denomination banknotes to general public successfully continued during Eid-ul-Fitr 2019. The scope of this service was enhanced to 142 cities through 1,702 designated e-branches of commercial banks as well as 16 Field Offices of SBP BSC. The launch of service, its mechanism as well as its booking status was conveyed to the general public through Press Releases of SBP on a timely basis. As a result, the service received an overwhelming public response with issuance of Rs 54 billion fresh notes to general public directly. In Ramzan 2019, around 3 million people availed this service as compared to 2.2 million people facilitated last year. Additionally, banks were also provided substantial quantities of higher denomination banknotes for ATMs to ensure smooth operations before and during Eid holidays. Special teams were also deputed to inspect ATMs to ensure uninterrupted availability of good quality cash to general public during Eid holidays.

<sup>3</sup> T24 Figures as on June 30, 2019

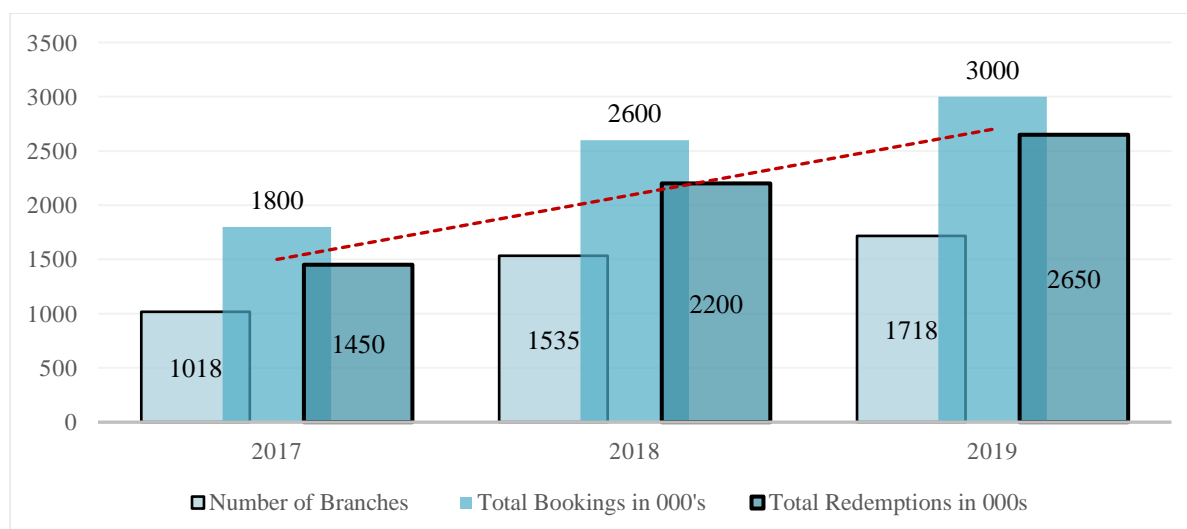


Figure 2.2: 8877-SMS Service Trend

## 2.4 Monitoring of Currency Operations

SBP BSC also oversees the monitoring/ onsite examination of 224 NBP chests / sub-chests and commercial bank branches. Recently, the onsite monitoring mechanism has been revamped to ensure compliance of commercial banks with SBP's Currency Management Strategy (CMS) through restructuring of the administrative/ functional framework for cash monitoring and developing comprehensive guidelines for examination. Three specialized Cash Monitoring Hubs (CMHs) have been established at Karachi, Lahore and Islamabad staffed by dedicated officers for the purpose to ensure rigorous examinations in accordance with instructions under CMS and with specific focus on high risk cash management areas. During FY19, these hubs examined 1,027 branches country-wide and imposed penalties on violation of instructions under CMS. The CMH teams also conducted awareness sessions during the on-site examinations visit for better understanding and capacity building of the cash officers of commercial banks.

Moreover, during FY 2018-19 on-site examination of NBP Chests was carried out. Each chest branch was visited twice with rigorous follow-up to get the irregularities/ observations rectified. The matter was also escalated to higher management of NBP regarding recurring observations to improve the customer service through chests and subsequently, enhance the quality of notes in circulation.

## 2.5 Mechanization of Currency Management Operations

Currency Automation Strategy (CAS) within the SBP BSC Field Offices was initiated in 2015 with an aim to equip the Bank with the requisite infrastructure to meet the regulatory requirements outlined in the CMS. Based on a comprehensive need assessment, the overall requirement of medium-to-high-end machines was outlined with a structured and phased roadmap to ensure steady automation throughout the Bank's pan-Pakistan operations by installing/deploying:

- High-end BPAS and BDS systems for efficient processing and destruction of banknotes deposited by commercial banks.
- Small-to-medium sized (Countertop & Desktop) banknote sorting machines at the Bank's front-end operations, as SBP BSC also directly caters to the needs of the general public.

The first phase of the strategy-involved procurement of 2 high-end BPAS, which have been successfully operating at SBP BSC Karachi since August 2016. For the current year, CMD is also in the process of placing an order for additional 09 BPAS machines which are expected to be installed at

06 Field Offices by December 2021. To align the Bank's destruction capabilities with international best practices, for 4 BDS systems were procured in February 2019 and these systems are expected to be installed and commissioned by June 2020. Furthermore, procurement of additional 3 BDS machines is expected to be undertaken in year 2019-20.

As of March 2018, 141 Countertop & Desktop banknote sorting machines (CNS & DNS) are operational across 16 Field Offices and these machines are playing a pivotal role in ensuring that only good quality and machine-authenticated banknotes are issued over the Bank's counters. While some of these machines, installed at cash dealing counters (CNS) shall be perpetually retained, the DNS machines have been supplied as a stopgap arrangement until the eventual deployment of BPAS across major SBP BSC Offices. These pool offices shall then serve as processing and destruction hubs for the Bank's overall automation needs.

A joint committee having representation from both SBP & BSC is also facilitating commercial banks in procuring Desktop and Countertop Note sorting machines by conducting hand-holding exercises encompassing demonstrations and stress testing of machines brought in at the Bank's premises, against pre-defined parameters. In addition, the SBP & BSC actively collaborate for identification and short listing of note sorting and authentication machines, streamlining the procurement process of such machines for commercial banks by ensuring that these machines meet CMS requirements.

## **2.6 Government Saving Schemes**

The management of Government Savings Schemes on behalf of CDNS is another major operational area. In collaboration with CDNS, we strive to modernize the operations of savings schemes to achieve operational efficiency in terms of time, cost and HR needs. The issuance of Rs 40,000 Premium Prize Bonds (registered) is one example whereby all processes have been automated through T-24 Banking Module. Further, to enhance the customer service and facilitate the general public, in collaboration with the Bank's IT team we have undertaken various system development projects including payment of prize money and face value of winning prize bonds through bank accounts. A brief overview of various savings schemes is given as under:

### **2.6.1 National Prize Bonds (NPB)**

National Prize Bonds (NPBs) are bearer instruments available in seven denominations. The holder of these bonds is eligible for a prize in draws held on quarterly basis. The sale and encashment of these bonds is carried out at SBP BSC offices, authorized commercial bank branches and National Savings Centers across Pakistan. The draws of NPBs are held at nine SBP BSC Offices on quarterly basis as per schedule announced by the CDNS at the start of each year.

As on 30<sup>th</sup> June, 2019, the overall value of NPBs held by the general public increased by Rs 39.6 billion, reaching a total of Rs 884.6 billion. Further, prize money payment to general public has also increased due to lesser encashment, increase in the number of series sold and greater holdings by the general public. During the fiscal year 2018-19, NPBs amounting to Rs. 154.3 billion were issued while Rs. 114.7 billion were en-cashed by general public, as elaborated in **Table 2.3**.

Table 2.3: Total NPB Sale & Encashment at SBP BSC Field Offices (Rs in Millions)									
Denom.	FY18				FY19				Outstanding Value Held by Public FY19
	Sale	Encashment	Prize Money Payment	Net Sale	Sale	Encashment	Prize Money Payment	Net Sale for FY19	
100	1,121	285	697	836	1,256	307	841	949	10,189
200	3,353	1,169	2,126	2,184	2,600	1,021	2,426	1,579	29,591
750	13,691	2,315	7,694	11,376	14,514	2,733	8,957	11,781	103,448
1,500	12,167	2,341	7,938	9,826	15,763	3,308	9,468	12,455	108,165
7,500	10,340	1,783	7,084	8,557	23,568	4,784	9,063	18,784	102,632
15,000	27,297	6,614	12,939	20,682	34,704	12,669	15,489	22,035	176,121
25,000	37,809	9,440	11,738	28,369	27,501	13,476	14,894	14,025	160,628
40,000 <sup>3</sup>	28,869	9,127	19,577	19,742	34,446	76,417	25,858	(41,971)	193,801
Total	134,647	33,074	69,793	101,572	154,352	114,715	86,996	39,637	884,575

The National Prize Bonds of Rs. 40,000/- denomination have been withdrawn from circulation by the Government of Pakistan w.e.f. June 24, 2019. The issuance of fresh bonds of cited denominations were already discontinued w.e.f. February 15, 2019. Consequently, negative net sale for the cited denomination can be observed during FY19. The holders of these bonds have been given three options to replace / en-cash these bonds till March 31, 2020:

1. Conversion to Premium Prize Bonds Registered
2. Replacement with Special Savings Certificate (SSC) / Defence Savings Certificate (DSC)
3. Encashment at Face Value into Bank Account.

During the outgoing fiscal year, in order to enhance outreach of prize money payment mechanism and make the claim process easy and efficient, commercial banks have been entrusted with the responsibility to accept prize money claims from general public on behalf of the Bank.

## 2.6.2 Premium Prize Bonds (PPB)

SBP BSC, in collaboration with CDNS, introduced a new Rs 40,000 Denomination “Premium Prize Bonds (Registered) Scheme” parallel with the bearer Rs. 40,000/- National Prize Bonds from March 10, 2017. This initiative is a step towards documentation of economy as maintaining a bank account is mandatory for investment in this scheme. The scheme is unique as these Bonds are eligible for both prize money (as admissible in the scheme) and profit payment as per rates notified by Government of Pakistan. With a view to facilitate general public and bring efficiency in the processes, the bi-annual profit and prize money (if any) are credited directly into the bank accounts of the investor. The 1<sup>st</sup> prize of Rs 40,000/- denomination PPB is Rs 80 million. The prize money amount against prize winning bonds is also directly credited into the bank accounts of respective investors within 3 working days from the date of draw. A snapshot of the business conducted for Rs. 40,000/- PPB in FY19 is given in Table 2.4.

Table 2.4: Total PPB Sale & Encashment at SBP BSC Field Offices (Rs in Millions)						
FY.	Denom	Sale	Encashment	Prize Money Payment	Profit Payment	Outstanding Value Held by Public
17-18	40,000/-	3,625	1,302	252	103	5,245
18-19	40,000/-	4,211	1,794	256	174	7,664

<sup>3</sup> Rs. 40,000 denomination has been withdrawn from circulation w.e.f. June 24, 2019

During FY19, all branches of six commercial banks i.e. National Bank of Pakistan (NBP), Habib Bank Limited (HBL), United Bank Limited (UBL), MCB Bank Limited, Allied Bank Limited (ABL) and Bank Alfalah Limited (BAFL) were authorized to deal in Premium Prize Bonds (Registered) and it is expected that this initiative will enhance the outreach of this scheme by utilizing their extensive branch network.

### 2.6.3 Special Savings Certificates (SSC)

Special Savings Certificates (SSC) Scheme, introduced by CDNS in 1990, has mainly focused on lower to middle-income investors with steady income. These certificates are available in various denominations, starting from Rs 500/- and going up to Rs 1 million with a maturity period of three years. Profit coupons are payable biannually, at the rate of 12.7 percent for the first five and 13.9 percent for the last coupon, as on 1<sup>st</sup> July 2019. A comparison between number of cases handled by field offices of three regions of SBP BSC for sale, encashment and profit payment of SSCs during the last three years is given in **Table 2.5**.

<b>Table 2.5: Number of SSC Cases handled by SBP BSC Field Offices Region wise</b>									
<b>Region</b>	<b>FY17</b>			<b>FY18</b>			<b>FY19</b>		
	<b>Sale</b>	<b>En-cashed</b>	<b>Profit Payment</b>	<b>Sale</b>	<b>En-cashed</b>	<b>Profit Payment</b>	<b>Sale</b>	<b>En-cashed</b>	<b>Profit Payment</b>
<b>North</b>	349	736	1,969	457	641	626	255	668	1,249
<b>Center</b>	726	1,740	3,550	1,089	2,032	2,437	1,890	2,411	2,248
<b>South</b>	5,602	9,557	15,391	3,232	15,081	17,621	7,041	7,707	19,145
<b>Total</b>	<b>6,677</b>	<b>12,033</b>	<b>20,910</b>	<b>4,778</b>	<b>17,754</b>	<b>20,684</b>	<b>9,186</b>	<b>10,786</b>	<b>22,642</b>

### 2.6.4 Defence Savings Certificates (DSC)

Defence Savings Certificates (DSC) Scheme, introduced in 1966 by CDNS, is a long-term investment option with a maturity period of 10 years. DSCs are available in various denominations, starting from Rs 500/- with a maximum denomination of Rs 1 million. The profit rate is 13.01 percent as on 1<sup>st</sup> July 2019. A comparison between number of transaction cases handled by field offices of three regions of SBP BSC for sale, encashment and profit payment of DSCs for the last three years is given in **Table 2.6**.

<b>Table 2.6: Number of DSC Transactions handled by SBP BSC Field Offices Region wise</b>									
<b>Region</b>	<b>FY17</b>			<b>FY18</b>			<b>FY19</b>		
	<b>Sale</b>	<b>En-cashed</b>	<b>Profit Payment</b>	<b>Sale</b>	<b>En-cashed</b>	<b>Profit Payment</b>	<b>Sale</b>	<b>En-cashed</b>	<b>Profit Payment</b>
<b>North</b>	248	663	582	176	332	173	201	551	723
<b>Center</b>	235	813	813	383	1,042	1,065	607	1,615	1,624
<b>South</b>	2,769	4,739	4,699	1,273	3,784	3,632	2,495	4,572	6,469
<b>Total</b>	<b>3,252</b>	<b>6,215</b>	<b>6,094</b>	<b>1,832</b>	<b>5,158</b>	<b>4,870</b>	<b>3,303</b>	<b>6,738</b>	<b>8,816</b>

## 2.7 Business Process Reengineering and Information Technology Initiatives

Being a dynamic organization, SBP BSC believes in effective use of technology and IT solutions for maximizing efficiency gains and improved operations. During FY19, in the area of currency management, significant BPR and IT-related initiatives have been undertaken for improvement in customer delivery standards and cash operations. These include:

- Comprehensive assessment of medium-sized banknote machines and revised Standard Operating Procedures (SOPs) to enhance machine utilization and HR efficiency.
- Automatic retrieval of Taxpayer Status in T-24 System.
- Screening of Proscribed Individuals in T-24 system under National Counter-Terrorism Act (NACTA) and United Nations Security Council (UNSC).
- Roll-out of Expeditious Verification Procedure across 6 SBP BSC Field Offices.
- Initiation of project for Installation of EQMS across SBP BSC Field Offices
- Strategizing destruction of banknotes and reduction in aging of soiled balances.
- SOPs for issuance of re-issuable balances of commercial banks.
- SOPs for prior preparation of balances for examinations.
- Discontinuation of manual sealing on packets and introduction of printable packet banding machines
- Automatic printing of Withholding Tax (WHT) Certificates for small prize money payments paid in cash, saving customer's visit and time.
- System-based Stock Management in Premium Prize Bonds (Registered).

## 2.8 Future Outlook

At institutional level, in collaboration with SBP, we are working on multiple projects with the overall aim of developing and modernizing currency operations internally as also across the banking industry. For the purpose, several technological and infrastructural changes are underway. Additionally, we are focusing on comprehensive review of currency operations in SBP BSC with a view to bring efficiency, HR optimization and to remove process redundancies.

After completion of procurement of 9 BPAS Machines SBP BSC will possess machine processing capabilities, at par with global industry standards for central banks. It is expected that this will add in enhancing counterfeit detection and will also improve the overall quality of banknotes circulating in the economy in line with SBP's Currency Management Strategy. Moreover, the feasibility of an Inventory Management System (IMS) is also being explored. IMS, if implemented, will be a multi-year phased project through which we envision to integrate all stakeholders involved in the cash lifecycle on a single shared platform through Electronic Data Interchange (EDI). Automation of Issue Department Accounting is also under process whereby data of SBP BSC Field Offices will be uploaded automatically in books of Issue Offices.

Furthermore, initiatives such as direct credit of prize money have not only significantly improved the efficiency of public debt operations managed by the Bank, but also reduced dependency on cash. In the future, we shall endeavor to broaden these projects for the other public debt schemes such as SSCs / DSCs to further improve the overall public debt operations. Similarly, deliberations are underway for future projects such as the sale of Premium Prize Bonds (Registered) from National Savings Offices to enhance the outreach of the scheme and the issuance of scripless registered bonds. All such projects would not only leave a positive impact on existing structure of operations but also enable optimum utilization of resources.



### 3 Development Finance Support Services

*Development Finance Support Department (DFSD) provides necessary operational support to the Development Finance Group (DFG) of State Bank of Pakistan (SBP) in achieving its strategic objective of promoting an inclusive financial system.*

#### 3.1 Overview

SBP BSC performs Development Finance Support function (DFS) through its Development Finance Department at HOK and DFS Divisions/Units at 16 SBP BSC Field Offices. Its role is vital in implementing and monitoring of SBP's policies, initiatives and refinance & credit guarantee schemes for the promotion of financial inclusion. SBP BSC Field Offices provide a platform for sharing information, ensuring collaboration with regional stakeholders, and collecting feedback at grassroots level for consideration of policy interventions by SBP.

SBP BSC Field Offices, through their strategic presence across the country, are well placed to augment the role of Development Finance Group (DFG) of SBP by reaching out to urban and rural markets. These Field Offices take various demand and supply side initiatives with the aim to connect the country's underserved segments with financial institutions and other related stakeholders.

Throughout the year, DFSD facilitated DFG in the implementation of its various programs and initiatives through SBP BSC Field Offices (**Box 3.1** and **Table 3.1**).

#### 3.2 National Financial Literacy Program (NFLP)

During FY19, SBP BSC has expanded the National Financial Literacy Program (NFLP) to cover 158 districts of the country. NFLP is a five-year project designed by SBP, being implemented by SBP BSC in collaboration with commercial/ microfinance banks and partner institutions such as Non-Governmental Organizations (NGOs), Microfinance Institutions (MFIs) and Rural Support Programs (RSPs). The objective of the program is to impart financial literacy to one million beneficiaries in five years. For the purpose, 9,876 classroom sessions were held during FY19 in which field trainers of banks taught a comprehensive curriculum to the underserved segments of society. In total, 256,000 participants attended these sessions whereas more than 115,000 participants opened branchless banking/ Asaan accounts on the spot, thus beginning their respective banking relationships. SBP BSC officers monitored these sessions using a combination of on-site and off-site methods. These officers also conducted 28 Training-of-Trainers sessions during the year where more than 500 bankers were trained as NFLP Field Trainers.

To promote awareness of basic financial services amongst the communities a mechanism was also devised for conducting NFLP Street Theaters. During these theater sessions, a pre-recorded video of a theater performance emphasizing the importance of financial literacy is played for the audience, followed by on-the-spot account opening activity. SBP BSC Offices organized 104 such street theaters in FY19.

In order to enable SBP BSC Offices to develop formal partnership arrangements with important stakeholders to collaborate under NFLP, a standardized Memorandum of Understanding (MoU) was

designed under guidance from Legal Services Department. Moreover, DFSD also conducted periodic meetings with lead focal persons (of banks) to ensure consistent communication and resolution of problems faced at the grassroots level.

**Box 3.1: Performance Highlights for FY19**

- Facilitated AC&MFD-SBP through periodic follow-up and review meetings with PFIs for monitoring the achievement of Rs 1,250 billion indicative target set by SBP for the agriculture sector for FY19. Disbursement during the year was Rs 1,174 billion, which was approximately 20.7% higher than disbursement of Rs 973 billion in the previous year.
- Meetings of Managing Director, SBP BSC with Regional Heads of commercial banks as well as Executive Committee of Quetta Bankers' Club were arranged by SBP BSC Quetta to discuss issues relevant to the region such as expansion of credit to priority sectors, need for enhancement in agriculture and SME financing, performance in NFLP, and challenges faced by the banking sector in Balochistan.
- Throughout the year, DFSD and SBP BSC Field Offices facilitated NIBAF for capacity building programs for bankers on SME finance in Faisalabad, Hyderabad, Quetta, Rawalpindi, Sialkot, and Sukkur. Further, NIBAF was assisted in conducting 5-day training programs for newly inducted Agriculture Credit Officers at two SBP BSC Field Offices, as well as three 3-day training programs on agriculture value chain financing, in view of SBP's commitment towards capacity building of banks regarding agriculture finance. Job fairs for agriculture graduates were also held at three universities in collaboration with AC&MFD-SBP in order to bridge the gap between academia and industry.
- 22 SME, 5 I-SME, 4 Islamic and 4 Housing finance Focus Groups' meetings were held during FY19, while 18 Agri-Finance Focus Group meetings and 3 Joint Focus Groups' meetings were organized.

A dedicated toll-free helpline for NFLP, publicized through a media campaign, was established during FY19, which is housed at DFSD. Moreover, DFSD assisted AC&MFD in update of NFLP website through provision of relevant material, including schedules for upcoming classroom sessions. An online reporting mechanism through Data Acquisition Portal (DAP) is being developed to allow direct reporting by banks, instead of through SBP BSC Offices, thereby reducing the workload of field offices.

The NFLP Student Ambassador Plan (NFLP-SAP), which engaged university students to deliver lectures at NFLP sessions in their summer and winter vacations, was continued during FY19. A total of 2,834 sessions were conducted under the program attended by over 70,000 participants.

### 3.3 Capacity Building of Branchless Banking Agents

A capacity building program for branchless banking agents was launched by AC&MFD in view of the important role these agents play as the first point of contact between unbanked and under-banked segments of society and the formal banking system. In line with the guidelines provided by AC&MFD and DFSD, SBP BSC Offices carried out on-site monitoring and evaluation of the programs conducted by participating banks by visiting 90 classroom training sessions during the second half of FY19. Further, the officers also conducted surprise visits to already trained agents in order to gauge the effectiveness of the training.

**Table 3.1: Activities Arranged & Participated by SBP BSC Field Offices during FY19**

S.N.	Activity	Number of	
		Activities	Participants
1	Awareness Programs	191	17,761
2	NFLP-related meetings, and activities etc.	123	6,664
3	Capacity Building	52	1,097
4	Seminars and Workshops	20	1,092
5	Fair, Conference, Exhibition etc.	8	1,900
Sub-total		394	28,514
6	Focus Group Meetings	56	-
7	Linkages with Govt. and Others	18	
8	Linkages with Academia	4	
9	Agri. Target related meetings	9	
Sub-total		87	
Total		481	28,514

### 3.4 Management of Refinance Schemes

To fulfill credit requirements of the critical sectors of Pakistan's economy including agriculture, trade, manufacturing and energy, SBP has introduced various short and long-term concessionary financing schemes.

DFSD ensures implementation and monitoring of proper utilization of funds disbursed under these schemes with the help of field offices across the country. The provision of refinance facility to commercial banks/ DFIs and timely recovery of principal and mark-up are the responsibilities of respective disbursing field office.

#### Box 3.2: Performance Highlights for FY19 – Management of Export Refinance Schemes

- Total Rs 901.5 billion disbursed under Export Refinance Schemes:
  - Rs 727.0 billion under EFS
  - Rs 174.5 billion under IERS
- Rs 9.8 million charged as OSV penalty from 25 participating banks on account of violation of EFS/ IERS instructions.
- Rs 57.2 billion disbursed under LTFF.

#### 3.4.1 Export Finance Scheme

Export Finance Scheme (EFS) – the most prominent among all refinance schemes of SBP – was introduced with the objective to boost country's value-added exports by providing access to low-cost funds to exporters to meet their short-term financing needs. Further, to facilitate exporters, who wish to avail financing under Islamic banking principles, the Islamic Export Refinance Scheme (IERS) has also been in operation since 2002-03. Moreover, in order to encourage financing to SME sector, banks have been incentivized with an additional spread of 1% on lending to SMEs since 2014.

During FY19, SBP BSC Offices disbursed a total of Rs 901.5 billion under the Export Refinance Schemes of SBP, out of which Rs 727.0 billion were disbursed under EFS and Rs 174.5 billion under IERS. Out of the total amount disbursed, Rs 40.2 billion were disbursed to SME exporters.

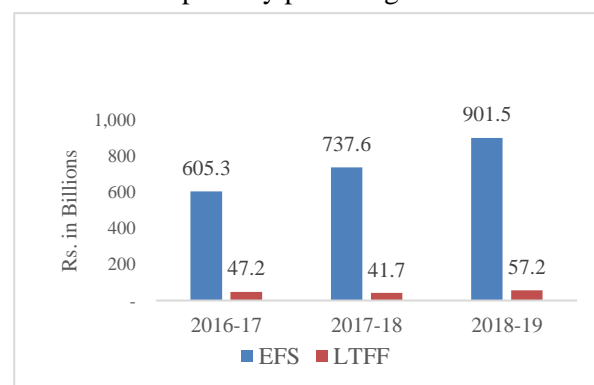


Figure 3.1: Disbursement Trends under EFS and LTFF

To ensure that banks and exporters availing the facility are strictly complying with the instructions issued by SBP and that the funds disbursed are utilized for value-added export purposes, SBP BSC conducted the onsite verification process every year. During CY18, onsite verification teams completed compliance verification of 12,658 loans, with total refinance of Rs 605.3 billion that was disbursed to 24 banks in FY17.

As a result of various violations of instructions of the EFS/ IERS observed during On-Site Verification (OSV) visits, field offices imposed a penalty of Rs 9.8 million on banks. Penalty against violations pertaining to Part-I category of EFS/ IERS accounted for 62.2% (Rs 6.1 million) of the total amount, while the remaining 37.8% (Rs 3.7 million) was against Part-II category. The total amount of penalty charged in OSV in CY18 decreased by Rs 1.9 million, or 16.2%, as compared to last year, showing that the purpose of conducting compliance verification was, by and large met, as banks were ensuring compliance to the instructions issued by SBP under the EFS/ IERS.

### **3.4.2 Long Term Financing Facility**

Under the Long Term Financing Facility (LTFF) & Islamic Long Term Financing Facility (ILTFF), financing is provided to exporters for adopting new technology in production/ manufacturing process and/ or upgrading their existing plants and machinery. Loans are repayable in 3, 5 or maximum 10 years. During FY19, Rs 57.2 billion were disbursed through banks under LTFF.

### **3.4.3 Refinance Scheme for Modernization of SMEs**

The scheme is available for SME borrowers for local purchase/ import of new machinery for balancing, modernization and replacement (BMR) of existing SME units and setting up of new ones. Cumulative disbursement since inception of the scheme reached Rs 658.6 million on 30<sup>th</sup> June 2019 against Rs 367.1 million on 30<sup>th</sup> June 2018. 17 banks have been allocated limits of Rs 6,825 million under the Scheme and limit utilization by banks on their outstanding financing stood at 4.4% (as of 30<sup>th</sup> June 2019).

### **3.4.4 SBP Financing Scheme for Renewable Energy**

State Bank of Pakistan first introduced the scheme for Financing of Power Plants using Renewable Energy in 2009. The objective of the facility was to lend support in addressing dual challenge of energy shortage and climate change through promotion of renewable energy by providing long-term financing at concessional rates. The inadequate supply of energy has severely impacted the growth of industries / businesses and the welfare of public in general. Similarly, the effects of climate change have been observed in the form of devastating floods, droughts, heat waves and changing weather patterns. These changes essentially inhibit our ability to develop sustainably. In order to overcome these challenges, SBP decided to promote green banking i.e. use of indigenous resources especially renewable energy in order to ensure sustainable banking and development. For this purpose, the scheme has been amended based on the feedback received from various stakeholders. The scheme provides concessionary financing for large renewable energy power projects as well as for small scale renewable energy solutions. The scheme is available for power generated by using alternative / renewable energy sources (solar, wind, hydro, biogas, bio-fuels, bagasse cogeneration, and geothermal as fuel). During FY 2018-19, SBP BSC offices disbursed Rs. 1,520.95 million against 80 projects.

### **3.4.5 Refinance and Credit Guarantee Scheme for Rice Husking Mills in Sind**

Eleven banks were allocated limit of Rs 975 million for FY19 under this facility. Utilization of the scheme on 30<sup>th</sup> June 2019 stood at 5.3%, with outstanding amount of Rs 51.5 million for 8 borrowers. During the year under review, 30% guarantee was issued against financing of Rs 39.8 million to 4 rice mills under the scheme. In view of low-limit utilization, SBP BSC Hyderabad advised the banks to conduct field visits to rice mills which were in the districts falling under the jurisdiction of SBP BSC Hyderabad. Fieldwork will ensure that banks actively pursue potential rice millers, create leads for financing and disseminate the scheme to potential beneficiaries.

### **3.4.6 Refinance and Credit Guarantee Scheme for Women Entrepreneurs**

Under the scheme, 17 banks have been allocated disbursement limits of Rs 2,470 million up to December 31, 2019. As of 30<sup>th</sup> June, 2019, the number of borrowers availing the scheme since its inception was 217, whereas the amount disbursed since inception was Rs 92.4 million. In order to improve utilization of the scheme, SBP BSC field offices were tasked for the collection of feedback from banks' regional management on the scheme. This exercise will facilitate in creating awareness of the scheme amongst regional bankers as well as in understanding reasons for low utilization by banks so that necessary corrective action may be taken by SBP/ SBP BSC. Moreover, field offices conducted 9 SME awareness sessions focused exclusively on the scheme. In order to address the

recurring concern regarding unawareness on part of regional bankers, SBP BSC will be conducting capacity-building programs for them on the subject scheme. The plan will be executed in a phased manner, targeting selected banks and districts.

### 3.5 Credit Guarantee and Other Schemes

In order to motivate financial institutions for lending to priority, marginalized and collateral deficient segments, one way is to share their credit risk, for which credit guarantee schemes have been launched by SBP, with the funding support of UK's Department for International Development (DFID), provincial and federal governments.

SBP BSC is responsible for management of three credit guarantee schemes for priority sectors namely Credit Guarantee Scheme for Small and Rural Enterprises (CGS-SRE), Credit Guarantee Scheme for Small & Marginalized Farmers (CGSMF) and Mark-up Subsidy & Guarantee Facility for Rice Husking Mills, Women Scheme. During FY19, 7,702 loans for a financing amount of Rs 8,603 million were processed for up to 60% guarantee issued to 20 Participating Financial Institutions (PFIs), including commercial banks and microfinance banks under CGS-SRE; 22,790 loans for a financing amount of Rs 1,576.8 million were processed for issuance of 50% guarantees to six PFIs (commercial & microfinance banks) under CGSMF during July-18 to June-19. CGS-SRE claims of Rs 59.9 million were reimbursed to concerned PFIs against recoveries of Rs 25.6 million since inception of the scheme in 2010. Details of the scheme for rice husking mills are given in Section 3.4.4. Highlights of CGS and other schemes are presented in **Box 3.3**.

#### Box 3.3: Highlights relating to Credit Guarantee and Subsidy Schemes

- 88,869 PMYBL related transactions were processed by DFSD for subsidy amounting to Rs 1.3 billion.
- 7,702 loans for a financing amount of Rs 8,603 million were issued guarantees to 20 Participating Financial Institutions (PFIs) directed towards 53 sectors under CGS for Small and Rural Enterprises for FY19.
- CGS claims of Rs 59.9 million were reimbursed to concerned PFIs against recoveries of Rs 25.6 million since inception of the Scheme.
- Guarantees were issued to seven PFIs under CGSMF for 22,790 loans with a total financing amount of Rs 1,576.8 million.
- Funds on account of CGS, MCGF, CGSMF and RHMS amounting to Rs 10.7 billion approximately were managed by DFSD.

Since inception of CGS-SRE till June 2019, 43,390 guarantees were issued against lending of Rs 36.7 billion to 21 PFIs. These loans were granted to mainly 58 different sectors to borrowers from 107 districts of the country. Fresh borrowers constituted 66% of the total borrowers and composition of borrower-type may be seen in **Figure 3.2**. Rural versus urban sanctioned loans were 53% and 47% respectively.

SBP BSC is also entrusted with the responsibility of processing the claims of banks under Prime Minister's Youth Business Loan (PMYBL) Program launched by the Government of Pakistan (GoP) in 2013. During FY19, twelve banks submitted 88,869 transactions of subsidy claims under PMYBL scheme. After processing, subsidy amounting to Rs 1.3 billion and loss claim of Rs 241.6 million were forwarded to Finance Division, GoP for arranging payments to concerned banks during the said period.

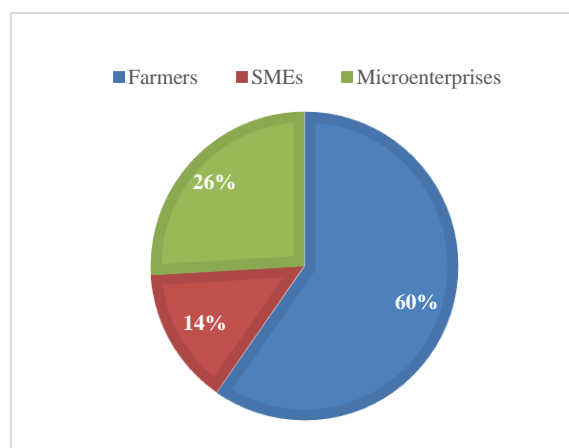


Figure 3.2: Borrower-type under CGS-SRE

### **3.5.1 Fund Management**

SBP BSC managed funds of around Rs 10.7 billion under various credit guarantee and mark-up subsidy schemes. These funds along with profit earned are invested/ reinvested in government securities in consultation with Domestic Markets and Monetary Management Department (DMMD) of SBP and operational support by SBP BSC Karachi for execution of the transactions. During FY19, One hundred and twenty-one re-investment/ encashment transactions in T-bills were undertaken through primary and secondary markets on account of these funds.

### **3.6 SME Finance Awareness Sessions**

In order to meet the targets set under SBP's Policy for Promotion of SME-Financing-2020, SBP BSC is playing a vital role for dissemination of information on SBP refinance schemes for SMEs through awareness sessions across Pakistan. These sessions are conducted for stakeholders such as SMEs, traders, academia, SMEDA, banks, chambers etc.

SBP BSC was assigned a target of conducting 150 programs per calendar year till December 2020. During CY2018, SBP BSC Field Offices conducted 191 programs reaching over 11,000 stakeholders, where 187 sessions were carried out by SBP BSC Field Offices and 4 sessions were conducted by IH&SMEFD. During Jan-Jun 2019, SBP BSC Field Offices conducted 84 sessions of which 9 sessions were conducted exclusively on Refinance and Credit Guarantee Scheme for Women Entrepreneurs.

### **3.7 Developmental Initiatives**

#### **3.7.1 Preparation of Report on Low Utilization of SBP Refinance Schemes**

The report is based on the questionnaires that were filled by banks. The report helps to understand the trends of utilization of the schemes and suggests measures for enhancing their utilization. The report contains following recommendations, which have been shared with DFG:

- a. Allow financing of used/ second-hand machinery
- b. Allow financing of vehicles
- c. Re-allocation of limits to actively performing PFIs
- d. Training/ orientation sessions for banks
- e. Revision in number of working days allowed for adjustment of early repayments

#### **3.7.2 Functionalities developed in T-24 for EFS and PMYBL**

In order to overcome operational gaps and improve efficiency, eight IT based developments were made during the year for EFS and PMYBL combined.

#### **3.7.3 Development of Query Management System**

An Oracle-based Query Management System for refinance schemes was developed to ensure provision of prompt responses, establishment of an information database and knowledge sharing with all SBP BSC field offices.

#### **3.7.4 Annual Development Finance Symposium**

In order to align SBP BSC's action plan with SBP's financial inclusion strategy, first Annual Development Finance Symposium was organized on 1-2 April 2019 for all DFD officers at Field Offices. The session was inaugurated by MD – BSC and Group Head – FX&DF while representatives from SBP BSC and DFG – SBP departments made presentations on their

respective areas and covered the current as well as planned/ upcoming activities for SBP/ SBP BSC. The symposium was concluded with a brainstorming session, where action points were agreed upon to improve the efficiency across all field offices and to play a pivotal role in promotion of development finance activities.

### **3.7.5 Development of Data Acquisition Portal (DAP) for Credit Guarantee Schemes**

DAP for credit guarantee schemes was developed and made operational in September 2018. The system has not only reduced processing time and chances of human error, but also ensured accurate and timely reporting of data by PFIs. Subsequent to the automation, SBP BSC also prepared reporting instructions for PFIs which were circulated and placed on SBP website for ready reference and guidance.

### **3.7.6 Preparation of Operational Mechanism for Line of Credit Fund for MFBs**

In order to address funding constraints of the microfinance sector, SBP set up a Line of Credit (LoC) Fund for Microfinance Banks (MFBs) and Non-Bank Microfinance Companies (NBMFCs) for onward lending to microfinance borrowers. Accordingly, SBP BSC developed a complete operational mechanism and oracle-based module in system for successful implementation of the newly launched scheme.

### **3.7.7 Research Study on Role of Fintech**

A research study was conducted on the role of “Fintech” in promotion of development finance during the year. For the purpose interviews were held with relevant internal and external stakeholders. The report contains various recommendations for concerned stakeholders

### **3.7.8 Course Correction for NFLP**

A survey was conducted for assessment and course correction study of NFLP with input from Research Department. The idea was to assess the effectiveness of the program by asking questions from the program participants, and to identify the mid-course corrective measures necessary to make the program implementation more focused for remaining three years of program. The survey has been completed and results show that program is moving in right direction. However, in order to have a more realistic view with large population size, a project is being planned for impact evaluation of the program through external consultant

### **3.7.9 SOPs for Focus Group’s Meetings**

SOPs for conduct of meetings for sectors of SME, I-SME, Islamic Banking and Housing were revised and shared with SBP BSC Field Offices. In order to enhance the effectiveness of these meetings, various initiatives were taken including introduction of standardized regional data collection sheets, effective planning of the meetings in advance, participation of SBP BSC in the meetings (mostly through video conferencing or Skype), presentations by banks etc. A consolidated review of the discussions in the focus groups’ meetings held during Jul-Dec 2018 across all AFUs was prepared for Islamic banking, SME Finance and housing finance. Based on these reviews, suggestions/ recommendations to IBD-SBP and IH&SMEFD-SBP were put forth respectively for the promotion of relevant sectors.

## **3.8 Future Outlook**

SBP BSC will endeavor to proactively support DFG in the upcoming year in achievement of the financial inclusion vision of SBP. For the purpose, it aims to work closely with departments of DFG-

SBP through SBP BSC Field Offices according to the philosophy and wisdom of the 5Cs: Capacity Building, Coordination, Connectivity, Communication and Conducive Environment.

Further, SBP BSC will continue to improve operational controls for various processes and endeavor to provide its field Offices with the necessary knowledge and capacity building opportunities to interact with regional level stakeholders effectively. SBP BSC will also strive to play a lead role in conceptualizing and implementing financial inclusion initiatives through its Field Offices.

NFLP will be continued over the next three years in order to reach the target of one million people for imparting financial literacy, enhancing female participation and opening accounts in the program through various tailored strategies, and course correction based on survey conducted in FY19. Moreover, a sector-specific approach for SBP BSC Field Offices has been adopted by DFSD for development of various SME sectors on regional basis. Under this initiative, SBP BSC Field Offices will focus on one economically important SME sector in their respective areas for its promotion and development. SBP BSC will also be giving special focus to promotion of Islamic banking in the upcoming year by conducting awareness and capacity building programs for local *Muftian/ Ulema* and SBP BSC officers respectively. For the promotion of financing by banks for agriculture sector, 5 underserved districts will be focused on for developing a report with strategy and recommendations.



## 4 Foreign Exchange Operations

*SBPBSC facilitates foreign exchange related matters in light of the Foreign Exchange Regulation Act (FERA), Foreign Exchange Manual and instructions of Exchange Policy Department (EPD) of SBP. Cases related to export overdue, payment of subsidy under various government schemes and commercial / private outward remittances are processed by SBP BSC.*

*The organization's sphere has expanded with attaining delegation of powers to levy penalties under section 23K of FERA, 1947 along with its leading role in offsite monitoring of trade transactions of banks. In order to ensure provision of efficient services, SBPBSC has laid down extensive emphasis on enhancing its operational efficiency by automation of processes particularly through implementation of Knowledge Management (KM) project.*

### 4.1 Overview

SBP BSC Foreign Exchange Operations strive to ensure:

- i) timely repatriation of export proceeds;
- ii) approval of foreign exchange payments as per applicable regulations;
- iii) vigilant off-site monitoring of trade related transactions;
- iv) effective implementation of all Government subsidy schemes in accordance with applicable Statutory Regulatory Orders (SROs); and
- v) initiating legal actions against delinquent exporters who fail to repatriate export proceeds.

SBP BSC also provides support services to Development Finance Group (DFG) of SBP in ensuring compliance with instructions related to Export Finance Scheme - Part II. It also facilitates the export of currencies other than USD and import of USD through the joint booths of SBP and Pakistan Customs established at airports of Islamabad, Lahore, Peshawar and Karachi. It also coordinates with stakeholders including Pakistan Customs, FIA, NAB, etc. to ensure effective management of the Country's foreign exchange. The performance highlights of SBP BSC FX operations during the FY19 are mentioned in Box 4.1.

#### Box 4.1: Performance Highlights for FY19

- FX operation is the first function in SBP BSC that is implementing Automated Case Management System under Knowledge Management project.
- Enforced repatriation of overdue export proceeds amounting to USD 841.5 million without adjudication as compared to USD 887 million in FY18
- Disbursed Rs. 62.4 billion under various subsidy schemes of Government (as compared to Rs. 50 billion in FY18)
- Approved 14,056 cases of commercial, private and trade related remittances
- Realigned functions carried out by EPD and FEOD by bringing clarity of roles and eliminating overlapping in functions
- Developed excel based EE/EF verification model and verified 706,978 entries in FY19 as compared to 643,404 in FY18. The turnaround time was also reduced significantly from 19 days to 7.5 days.
- Devised operating mechanism for imposing penalties under FERA 1947
- Completed first phase of Data Universe project i.e. integration of data from ITRS and T-24 on a platform
- Restructured and standardized the quarterly offsite FX monitoring report
- Identified and referred 26 fake export cases worth Rs. 6.4 million to Customs Adjudication
- Arranged capacity building training programs for ADs and FEO officers

## 4.2 Developmental Initiatives

SBP BSC actively took various developmental initiatives during FY19 to bring efficiency and improvements in its operational processes, keeping in view the changing dynamics in the country. In line with the SBP's Vision 2020, SBP BSC envisioned an Automated Case Management System under the umbrella of Knowledge Management (KM) project to improve efficiency and control environment. The program envisaged improving work environment of the Bank by capturing, storing and sharing knowledge, facilitating easy access to documents and reducing content search time by designing, building and managing a centralized repository of information and knowledge. Foreign Exchange Operations of SBP BSC was the first function to implement Automated Case Management system wherein all the Authorized Dealers started submitting cases via an online portal under parallel system.

Further, the quantum of workload has increased substantially over past few years owing to the increase in volume of international trade and scope of monitoring and verification activities. This necessitated a platform that provided aggregation of transactional data. Therefore, a project of 'Data Universe' was actively pursued during the year, which involved integration of data from Web-Based One Custom (WeBOC), International Transaction Reporting System (ITRS), Export Overdue Reporting System (EORS) and T-24 to get a holistic view of a stakeholder for monitoring. The first phase of the project has been completed during the year, wherein data from ITRS and T-24 was successfully integrated.

SBP BSC played a vital role in enforcement of section 23K of the FERA 1947 wherein SBP delegated to SBP BSC its powers to impose penalty on Authorized Dealers (ADs) for violation of FE regulations. A comprehensive operating mechanism including penalty scale was devised in consultation with Offsite Supervision and Enforcement Department (OSSED), SBP. Thereafter, relevant regulatory action has been initiated against ADs for violating the provisions of FE regulations.

During FY19, the reporting format of quarterly offsite FE monitoring report was reviewed and restructured with an aim to enhance its scope and bring standardization in its layout. New areas of trade were explored for offsite monitoring using the statistical and other data analysis techniques. Moreover, SBP BSC keenly contributed in revision of FE policy / regulations by sharing its practical insights and findings with EPD, SBP from time to time.

Various trainings were also arranged in order to improve the skill set of staff involved in FE operations across the Bank including the staff of Foreign Exchange Operations Units (FEOU) at Field Offices. Furthermore, trainings of Authorized Dealers (ADs) were also organized to equip them with the requirement of current FE regime of Pakistan.

## 4.3 Monitoring & Enforcement

With the fast pace of changing dynamics in the FE regime and trade trends worldwide, SBP BSC remained vigilant in off-site monitoring of FE-related transactions with an aim to identify fraudulent transactions and those deviating from the FE Rules and Regulations. Tireless efforts were made in following-up with the delinquent exporters with respect to export overdue cases to ensure repatriation of export proceeds. Similarly, outflow of foreign exchange through importers, shipping companies, airlines and freight forwarders was also monitored to ensure genuine utilization of foreign exchange. The key findings during the period are as follows:

### 4.3.1 Monitoring of Export Receipts

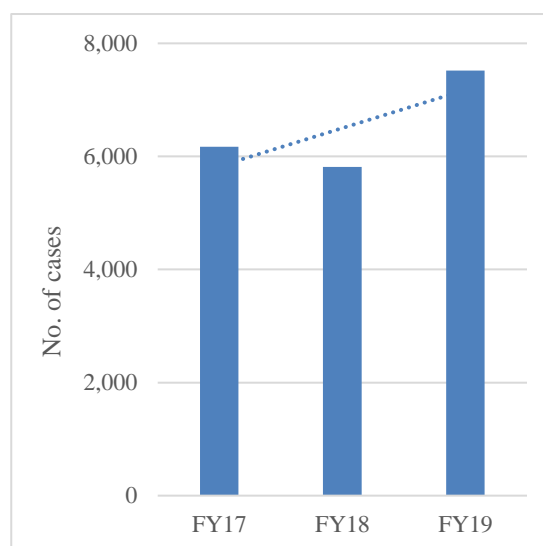
ADs reported 49,996 export overdue cases amounting to USD 1,073.1 million in FY19 as compared to 58,056 cases of USD 1,225.5 million in FY18. The drop in export overdue cases, inter alia, attributed to better controls put in place by SBP BSC and ADs. SBP BSC adopted a proactive approach with an objective to recover the export overdue cases expeditiously without resorting to litigation process. The rigorous efforts resulted into repatriation of USD 841.5 million as compared to USD 887 million in FY18. Further, various meetings were also conducted during the period with different stakeholders including Customs, ADs, shipping companies, and exporters etc. to ensure repatriation of export proceeds.

	<b>FY18</b>	<b>FY19</b>	<b>Change</b>	<b>Change (%)</b>
Export overdue cases (No.)	58,056	49,996	(8,060)	-13.9%
Export overdue cases (USD in millions)	1,225.5	1,073.1	(152.4)	-12.4%
Export proceeds repatriated (USD in millions)	887.0	841.5	(45.5)	-5.1%

During the FY19, FEOD identified 89,946 Export Forms (EFE) valuing USD 2.9 billion which were neither reported as realized in WeBOC nor as overdue despite the expiry of due dates as compared to 161,799 EFEs in FY18. This delinquency causes understatement of export overdue position. Subsequently, SBP BSC ensured marking of realization against 75,790 EFEs (105,201 EFEs in FY18), valuing USD 2.7 billion in WeBOC and reporting of 14,156 EFEs (42,874 EFEs in FY18), valuing USD 244.4 million in Export Overdue Reporting System (EORS) by the ADs.

Further, the authenticity of more than 37,000 manual E-Forms was verified during the FY19. A total of 26 fake E-forms valuing USD 6.4 million were also identified and referred to Collector of Customs (Adjudication).

During the period, the verification and scrutiny process of EE-1/EF-1 Statements was successfully automated through an excel based model leading to significant reduction in time and cost of HR involved therein. A total of 706,978 entries were verified during the year as compared to 643,404 in FY18. Additionally, the average turnaround time reduced from 19 days to 7.5 days besides increasing efficiency and accuracy. Further, monitoring of transactional data in ITRS enabled identification of more than 23,000 discrepancies which were taken up with the ADs for rectification to ensure completeness and accuracy of the data as compared to around 38,000 discrepancies in FY18. A total of 7,521 requests of revisions in ITRS were processed during FY19.



**Figure 4.1: ITRS Revisions**

### 4.3.2 Monitoring of Import Payments

In line with the prevalent FE regime, which requires importers to either import goods or repatriate advance payment within 120 days from the date of remittance, the Department strictly monitored these advance payments. The penalties amounting to Rs 266 million were recovered in FY19 compared to Rs 102 million in FY18 on account of failure to import goods against advance payment.

During the off-site monitoring of import payments, SBP BSC identified instances of large scale over-invoicing of Solar Photo Voltaic Panels imported from China. In-depth analysis of the data revealed that 112 delinquent importers remitted excess payments of approximately USD 318.8 million under the guise of importing Solar Panels from China. Accordingly, show cause notices were issued to importers and ADs.

#### 4.4 Complaint & Litigation

Complaint & Litigation function's focus remained on litigation/prosecution of record number of complaints lodged last year in FEA court. Consequently, through effective pleading & prosecution at FEA Courts, 7,456 cases got decided in FY19 as compared to 5,857 cases in FY18. Besides, 11,261 complaints in FY19 were lodged against delinquent exporters, who failed to repatriate export proceeds on time as compared to 13,420 cases in FY18. In order to ensure efficient disposal of the cases, FEA courts were also facilitated through intimating the realization status of more than 8,000 cases lodged in the courts.

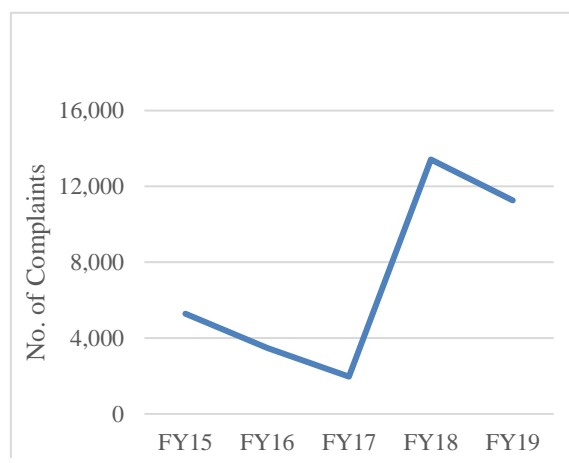


Figure 4.2: Complaints lodged in FEA Courts

SBP BSC defended and pleaded all 29 appeals in Foreign Exchange Regulation Appellate Board (FERAB) without hiring external legal counsel and successfully defended 23 appeals which were decided in favor of SBP BSC, whereas the judgments on remaining 6 appeals are pending. The decisions of said appeals at Appellate Board resulted, for the first time, in repatriation of USD 42,535 as well as recovery of fine amounting to Rs 3 million. SBP BSC also prepared comprehensive and detailed counter-reply of 25 cases in High Courts and with Ombudsman in consultation with Legal Services Department (LSD), SBP and were submitted in courts through different external legal counsels.

#### 4.5 Management of Government Schemes

SBP BSC implements all Government subsidy schemes like DDT, DLT (Textile & Non-Textile), Sugar, Wheat, etc. as per the SROs/notifications issued by different ministries of Federal and Provincial Governments from time to time. The nature, criteria and operational mechanism varies from scheme to scheme. The aim of these subsidy schemes is to support exports and industrial growth with the ultimate objective of promoting overall economic development of the Country. A total of Rs. 62.4 billion was disbursed in FY19 as compared to Rs. 50 billion in FY18.

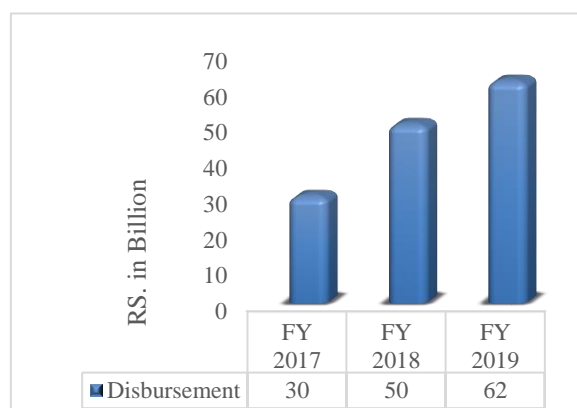
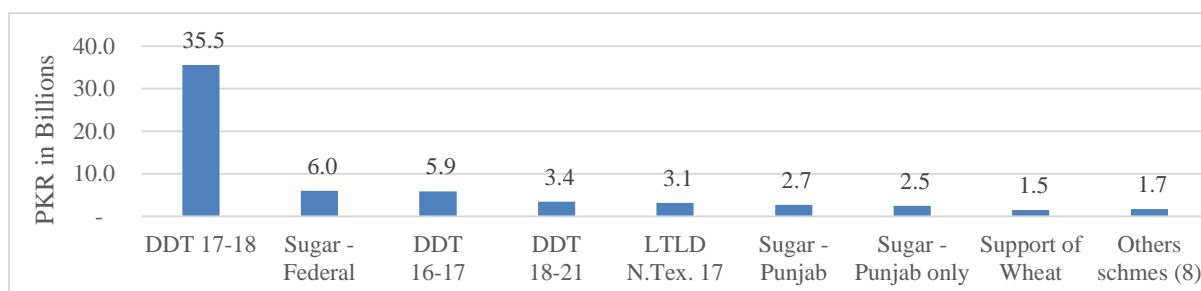
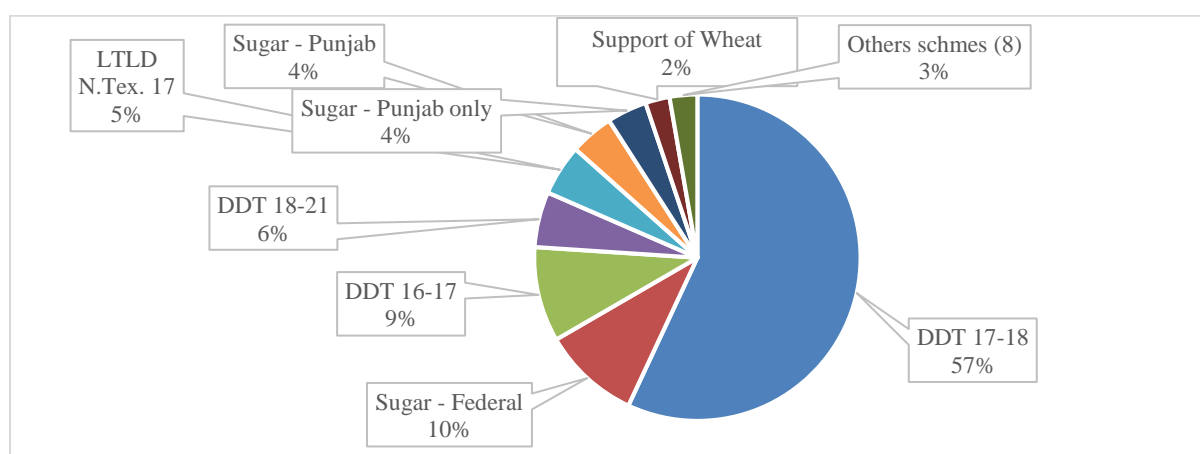


Figure 4.3: Year-wise disbursements of Govt. Subsidies Schemes

The scheme-wise disbursement made during the FY19 is illustrated in **Figure 4.4** and **4.5**.



**Figure 4.4: Govt. Subsidy Scheme-wise disbursed amounts**

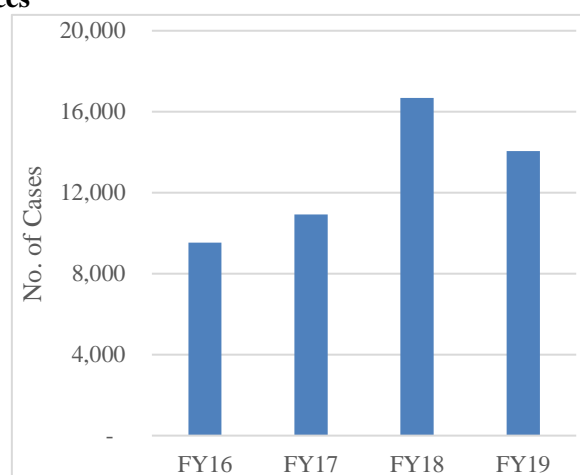


**Figure 4.5: Govt. Subsidy Scheme-wise disbursements in percentage**

Further, during FY19, sixteen Government subsidy schemes were administered by the Department including two new schemes, for which comprehensive guidelines and circulars were drafted by the Department.

#### 4.6 Commercial, Private and Trade Remittances

With the changing trends and dynamics of the economy along with external factors like placement on the Financial Action Task Force's (FATF) grey list, the scope of SBPBSC's examination has shifted to a critical risk based assessment. The inward and outward FX transactions are now being scrutinized with wide-ranging perspective of combating money laundering. The cases are comprehensively analyzed from data reported by banks in ITRS and WeBOC. During FY19, 14,056 cases of commercial, private and trade related remittances were processed and approved as compared to more than 19,000 in FY18 due to restriction placed on import on open account.



**Figure 4.6: Year-wise Trade related external remittance cases processed**

During the period, 56 cases of commercial outward remittances valuing USD 12 million (approx.) were declined to encourage utilization of locally available services. Further, significant reduction was observed in the turnaround time of processing the cases owing to the enhanced reinforcement and sensitizations of ADs to carry out a thorough due diligence before submitting the requests to SBP BSC.

#### **4.7 Maintenance of FE allocation**

SBP BSC also maintains the record of foreign exchange allocated by Ministry of Finance to different Government departments for a given financial year and issues permits against these. During FY19, 11,418 approval / verification requests received from various Government departments were processed. Further, other matters relating to concerned Government departments were also coordinated during the year under review.

#### **4.8 Import and Export of Foreign Currencies through Airport Booths**

SBP BSC has setup its booths at four major airports of the Country (i.e. Karachi, Lahore, Islamabad and Peshawar) in order to facilitate exchange companies in exporting permissible foreign currencies other than USD and importing of USD equivalent. The staff of SBP BSC deployed at the Booths consolidates the figures of import and export of foreign currencies for onward sharing with OSED, SBP. The matters pertaining to foreign currency imports and exports were coordinated at all four airports by the deployed staff throughout the year under review, while ensuring adherence to the applicable FE regulations. The deployed staff was also rotated during the period to ensure objectivity in operations of the Booths.

#### **4.9 Establishment of Facilitation Desk**

SBP BSC has established a Facilitation Desk in order to facilitate the external stakeholders in cases of commercial remittances and other FE related issues. The establishment of the facilitation desk proved to be helpful in timely resolution of queries in a well-directed manner. Around 300 queries were handled by the Desk since its establishment in March 2019.

#### **4.10 Future Outlook**

SBP BSC will strive to enhance operational efficiency in automation of processes, re-engineering of redundant procedures / practices and improving workforce capacity. SBP BSC's lead role in the project of Knowledge Management will manifest realization of the vision of SBP BSC. The implementation of KM will be a paradigm shift in the entire banking industry as it will automate the processes and functions performed at SBP BSC and will lead to a paperless environment.

With the rapid changes in economic conditions of the Country and FATF's emphasis on effective anti-money laundering and terrorist financing practices, SBP BSC plans to broaden its spectrum of monitoring activities to align with economic conditions and mitigate the evolving risks in foreign exchange business. The Project of 'Data Universe' was partially completed during FY19 which has integrated the data from ITRS and T-24 into a single platform enabling a holistic outlook of stakeholders for monitoring. The data from WeBOC and EORS will also be integrated in the application in the next phase of the project. SBP BSC is in the process of establishing Electronic Data Interchange (EDI) with Customs. Upon implementation, it will enhance the capacity of SBP BSC to monitor FX operations relating to trade manifold. SBP BSC is striving to transform its role from transaction approval and sanction to off-site monitoring of FE related transactions.

Initiation of action against the delinquent ADs under FERA, 1947 is expected to bring further discipline in the banking industry. New exercises for monitoring of foreign exchange transactions are

planned to be initiated to ensure meticulous compliance with the Rules and Regulations of the prevailing FX regime. Any violation will be strictly penalized in accordance with the approved penalty framework.

In order to enhance technical capacity of officers at SBP BSC and relevant staff of ADs, it has planned to continue conducting Foreign Trade Certification Program by incorporating the current regulatory concerns especially related to Anti-Money Laundering (AML) / Countering Financing of Terrorism (CFT).

## 5 Foreign Exchange Adjudication

*SBP BSC adjudicates cases regarding violations of various provisions of Foreign Exchange Regulation Act (FERA), 1947 as per powers vested in Adjudicating Officers under Section 23B of the Act. The Governor, State Bank of Pakistan appoints these Adjudicating Officers through Gazette Notifications under Section 19 of SBP BSC Ordinance, 2001.*

### 5.1 Overview

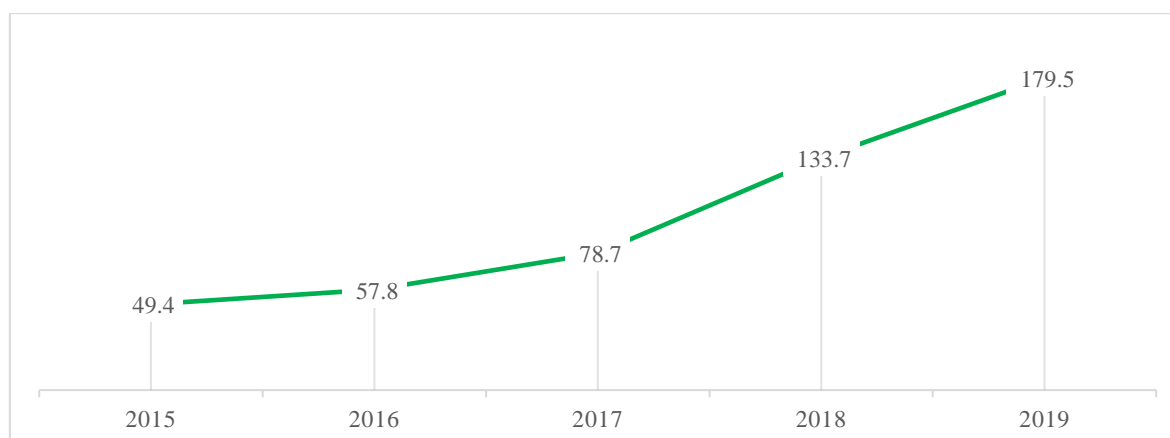
SBP BSC houses Foreign Exchange Adjudication Courts established under Foreign Exchange Regulation Act, 1947. The judicial proceedings at 13 nation-wide courts are conducted under Adjudication Proceedings and Appeal Rules, 1988. These Courts, which are empowered to impose penalties if it is proved that the contravention was willful, subsequently approach relevant authorities for recovery of penalties as per Section 23J of the FER Act.

#### Box 5.1: Major Initiatives/Achievements

1. Realization of export proceeds up by 34% during FY19 compared to previous year.
2. Disposal of cases up by 31% during FY 19 compared to previous year.
3. Recovery of penalty up by 124% during FY19 compared to previous year.
4. A four-day comprehensive training of Adjudicating Officers and allied staff arranged at NIBAF, Islamabad during the year under review.
5. Centralized Cause List fully implemented and made available to both internal and external stakeholders through web.

In order to ensure prompt judicial process, the adjudication function is divided into three wings at Head Office viz. (i) Courts, (ii) Registrar and Database, (iii) Administration and Recovery.

While being heard in FEA courts, exporters are provided an opportunity of bringing back their overdue export proceeds in order to mitigate their violations. Since the establishment of Foreign Exchange Adjudication mechanism in 1990, these courts have managed repatriation of USD 857 million from the exporters who failed to bring export proceeds back within the stipulated time in violation of the provisions contained in section 12(1) of FERA. The realization position for the last 5 years is here under:



**Figure 5.1: Realization of Export Overdue Proceeds (in million US Dollars)**

The lodgment and disposal position of FEAD for the last 5 years is as under:



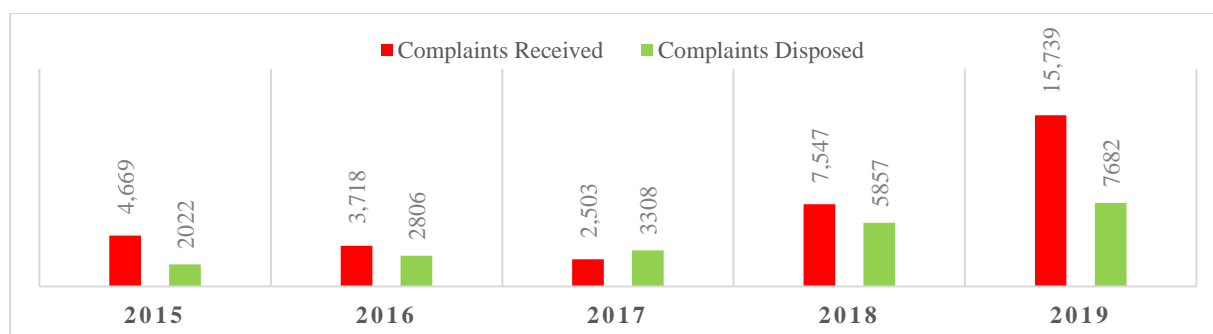


Figure 5.2: Lodgment and Disposal of Complaints

## 5.2 Performance Highlights

### 5.2.1 Realization of Export Proceeds

During FY19, export proceeds equivalent to USD 179.5 million (highest ever in a year) were realized compared to USD 133.7 million in FY18 (**Table 5.1**). Total outstanding export proceeds at the year end stood at USD 998 million.

### 5.2.2 Cases Disposal

Lodgment of 15,573 new cases during FY19 resulted in total workload of 30,707 cases for FY19. During the year 7,682 cases were disposed (**Table 5.2**). 23,025 cases were still outstanding at the year end.

### 5.2.3 Recovery of Penalty

Cases of long outstanding recoveries rigorously pursued and dedicated recovery units were strengthened at North and South Regions. This endeavor has resulted in a recovery of Rs 13.8 million penalty during FY19 compared to Rs 6.1 million during FY18. (**Table 5.3**).

### 5.2.4 Coordination with Land Revenue Authorities

Meetings were also conducted with the officials of Land Revenue Authorities to seek their assistance. However, these efforts have not yet been materialized in any recovery through these authorities.

Adjudication Courts	Export Proceeds Realized in Million USD		% Change
	FY18	FY19	
Karachi	53.7	69.4	29.2%
Lahore	48.2	68.2	41.5%
Faisalabad	8.4	16.2	92.9%
Multan	2.6	4.3	65.4%
Sialkot	8.1	8.4	3.7%
Quetta	12.1	12.5	3.3%
Rawalpindi	0.6	0.5	-16.7%
<b>Total</b>	<b>133.7</b>	<b>179.5</b>	<b>34.3%</b>

Adjudication Courts	Number of Cases		% Change
	FY18	FY19	
Karachi	3,391	3,682	8.6%
Lahore	928	2,113	127.7%
Faisalabad	341	543	59.2%
Multan	183	313	71.0%
Sialkot	485	583	20.2%
Quetta	311	149	-52.1%
Rawalpindi	218	299	37.2%
<b>Total</b>	<b>5,857</b>	<b>7,682</b>	<b>31.2%</b>

Adjudication Courts	Amount (in '000 Rs)	
	FY18	FY19
Karachi*	3,820	8,543
Lahore	2,220	4,879
Sialkot	130	388
<b>Total</b>	<b>6,170</b>	<b>13,810</b>
<b>*Including Rs. 2 Million Recovery from Authorized Dealers in FY19.</b>		

### **5.3 Major Initiatives**

#### **5.3.1 Database Application for FER Cases**

SBP BSC in collaboration with ISD SBP has developed a Database application for FER Cases. This initiative will facilitate in exercising efficient and effective monitoring of complaints and adjudication proceedings.

#### **5.3.2 Working paper for the issuance of SRO for Recovery of Penalty**

Clauses (i) and (ii) of section 23J of FERA, 1947 confer on the federal government the power to specify “any other person” in official gazette. State Bank, Banking Companies and Financial Institutions are already included in the definition of “any other person”, in addition thereto, CDC and Pakistan Mercantile Exchange are being proposed to be inserted in the same definition in order to recover the amount of penalty from the defaulter for the economic and financial interest of the country.

### **5.4 Future Outlook**

The implementation of the recently developed Electronic Database application will reduce the lag between complaint lodgment and issuance of show cause notices along with bringing standardization to all adjudication courts across the country in future. Further, after its complete implementation, the department is looking forward to automating the entire complaint lodgment and management system, which will further speed up the adjudication process and improve its effectiveness.

To maximize operational efficiencies, department has also planned to conduct an In-depth analytical review of entire operational working of all FEA courts, encompassing all steps from issuance of show cause notices to pronouncing Judgments and record keeping. This exercise may lead to revamping the operational guidelines if required.

Further, to maximize the utilization of experience and knowledge, a Repository of important FEA Cases is planned to be developed in FY20. It will provide Guidelines to Adjudicating Officers and lead towards standardization of adjudication practices among the members of FEA Adjudication Team.

Moreover, to boost the recovery of penalty through District Collectors, coordination both with top level of Provincial Governments as well as at concerned District levels will be enhanced. For data collection of concerned parties, efforts will be made for efficient liaisoning with all concerned Government bodies.

## 6 Human Resource Management

*Through our Human Resource Management function, we strive to provide an enabling environment to the employees as also work towards their organizational development and act as a catalyst for change management at SBP BSC. At strategic front, it facilitates the organization in pursuit of its vision and accomplishment of its organizational mission. It also acts to capacitate and motivate the human resource in making effective contributions towards the organizational objectives by creating an affable and conducive work environment.*

### 6.1 Overview

In the area of Human Resource Management, we took various initiatives for its amelioration while remaining focused on desired HR interventions in line with strategic priorities at organizational level. Energies were directed to strengthen the partnership with field operations and line departments across the organization. The emphasis remained on talent resourcing, career development, capacity building of industrial relations area, review of major HR policies, training & development of workforce and automation of HR processes.

### 6.2 HR Profile

Workforce rationalization and achieving desired HR level is an ongoing process especially in the wake of automation and business process re-engineering initiatives being undertaken by the Bank. Resultantly, SBP BSC has witnessed 57% reduction in the workforce since inception. Nonetheless, the gaps arising out of early retirements have been managed through fresh inductions that were planned in a rational manner. The grade-wise comparison of headcount for FY18 and FY19 is given in **Table 6.1**.

Grade	No. of Employees					
	At inception		FY 18		FY 19	
	Total strength	%	Total Strength	%	Total Strength	%
OG-7	-	-	2	0.08%	3	0.12%
OG-6	-	-	8	0.3%	8	0.3%
OG-5	36	0.7%	44	1.7%	44	1.7%
OG-4	71	1.3%	76	2.9%	81	3.2%
OG-3	296	5%	278	10.5%	276	10.8%
OG-2	958	16%	834	31.4%	842	33.1%
OG-1	2,091	35%	954	35.9%	890	35.0%
Below OG-1	2,512	42%	459	17.3%	401	15.8%
<b>Total</b>	<b>5,964</b>	<b>100%</b>	<b>2,655</b>	<b>100%</b>	<b>2,545</b>	<b>100%</b>

### 6.3 Developmental Initiatives

During the year under review, the Human Resource function undertook several developmental initiatives as part of its continuous improvement plan and desired needs at organizational level as under:

### 6.3.1 Implementation of BACES at HOK

Biometric Attendance and Access Control System (BACES) was formally launched during the year to ensure that only the authorized persons have access to the Bank's buildings and premises, and replace manual attendance system with biometric and e-attendance system. It has been integrated with Leave Workflow System and has eliminated the manual attendance registers for all intent and purposes. In this context, 24 machines have been installed at HOK (20 at BSC House and 4 at Boulton Market Building).

### 6.3.2 Revision in Promotion and Recruitment Policy

The promotion and recruitment policy was reviewed afresh to further strengthen the framework for recruiting talent and enhancing career development. The policies were amended in line with the objectives of the organization, and implemented accordingly.

### 6.3.3 Restructuring of SBP BSC (inclusion of Engg. Dept. under HR&SS Group)

To streamline the operations and improve facilitation to various departments of the bank, Engineering Department was placed under the HR&SS group. The aim of the restructuring was to create synergy among facilitation departments regarding procurement functions, ensuring best common practices, better supervision and efficient decision-making.

### 6.3.4 Salary transfer through RTGS

A BPR project for real time transfer of salary through RTGS was undertaken in close coordination with key stakeholders. The initiative has eliminated the process of manual disbursement of salary advices to commercial banks by payroll units, resulting in a much simplified and efficacious process for disbursement of salaries as well as saving of substantial man-hours.

### 6.3.5 Brief on Instructions issued on major HR Matters

A comprehensive brief on various instructions issued on HR matters is given in **Box 6.1**.

#### Box 6.1: Instructions issued regarding HR Matters

##### (1) Constitution of technology Forum

The bank in line with its objective of adopting modern HR initiatives constituted a Technology Forum to provide a platform to all tech-savvy employees to explore out of the box and technology based solutions.

##### (2) Tree Plantation Campaign

As part of Corporate Social Responsibility and contribution towards making Pakistan green, Tree Plantation Campaign has been initiated with the target of 50,000 trees to be planted by all field offices of SBP BSC.

##### (3) Splitting of Rest & Recreation Leaves

Officers have been given option to split their Rest & Recreation leave in 2 tranches.

##### (4) Implementation of Absorption Policy

In compliance with the Board's decision, final round of absorption of SBP officers at SBP BSC was successfully completed. After detailed deliberations by the committee, list of officer who shall be retained at SBP BSC or repatriated to SBP was shared with SBP for necessary action at their end.

##### (5) Revision in grants/allowances of officers

Keeping in view of inflation over the last few years, various allowances/grants viz. Personal Staff Allowance, Marriage/Funeral Grant etc. have been revised.

##### (6) Increase in pension of retired officers

As per decision of the Board, 5% Pension raise was given to SBP BSC pensioners and minimum pension was re-fixed at Rs. 14,000/- per month.

### 6.4 Talent Resourcing

To optimally replenish and strengthen the diminishing HR base, necessitated by employees opting for early retirement(s) under incentive schemes, resignations etc., young talent along with experienced resources/specialists were engaged at various levels, both in regular and contractual cadres.

Description on major recruitment initiatives is given in **Box 6.2**.

**Box 6.2: Brief on Recruitment Initiatives during FY19****(1) Young Professionals Induction Program (YPIP) - 8<sup>th</sup> Batch**

The recruitment for hiring of a batch of 72 officers in OG-2 cadre Officers under YPIP scheme (8<sup>th</sup> batch).

**(2) Officers Training Program (OTP) - 9<sup>th</sup> Batch**

A batch comprising 53 officers in OG-1 cadre was hired under OTP scheme (9<sup>th</sup> batch). Further, recruitment process for hiring of another batch of 82 officers under OTP-10<sup>th</sup> batch has also been done.

**(3) Hiring of Security Personnel**

To beef up the security function at the Bank, 104 contractual Security Guards were inducted. Further, recruitment of Chief Security Officer (OG-6) has also been completed.

**(4) Hiring of Professional Engineers**

In order to strengthen the Engineering function, 04 Executive Engineers (OG-3) and 05 Assistant Executive Engineers (OG-2) were inducted.

**(5) Hiring of Sports Personnel**

As part of Corporate Social Responsibility and to encourage young & emerging talent in the field of sports, SBP BSC maintains men and women cricket teams for which 10 cricket players (i.e. eight male & two female) have been inducted.

**(6) Hiring of Support Staff**

For the purpose of adequately manning the support service functions at the Bank, 06 resources were engaged on contract basis viz. two Medical Assistants, one Female Nurse, one Pesh Imam, and two T-24 Developers. Moreover, a recruitment drive for hiring of eleven Doctors under contractual terms is under process.

**6.5 Career Development**

SBP BSC management strives to structure the career progression of its employees, provide them with growth opportunities and identify talented individuals under credible succession arrangements. In this regard, a total of 130 promotions were awarded in FY19 in line with the policies in vogue. Detail is presented at **Table 6.2**.

<b>Table 6.2: Cadre-wise Promotions</b>	
<b>Cadre</b>	<b>No. of Employees Promoted</b>
Officers	117
From Clerical/Non-Clerical Staff to Officer Cadre	13
<b>Total</b>	<b>130</b>

**6.6 Performance Management System**

Accurate performance tracking and appraisal of employees is critical in achieving organizational objectives. Therefore, the management is concentrating on improving the effectiveness of PMS. In this regard, the bell curve distribution and exemption guidelines were revised to better suit the business needs (Bell-Curve distribution observed for FY2018-19 is given in **Table 6.3**.) Further, the Appeals Module in PMS application has also been automated that has resulted in operational efficiency and reduced paperwork.

<b>Table 6.3: Bell Curve Quota Distribution</b>				
<b>A</b>	<b>B+</b>	<b>B</b>	<b>C</b>	<b>D</b>
10 percent (On earning basis)	20 percent	55 percent	10 percent	5 percent (On earning basis)

**6.7 Industrial Relations**

SBP BSC is continuously striving to maintain industrial peace through concerned stakeholders. During the period under review, a Referendum to determine CBA was held at 15 locations across the country (except for the office at Muzaffarabad), under the supervision of National Industrial Relations Commission (NIRC). For the purpose the management played its due role as mandated under legal framework for smooth conduct of the referendum.

## 6.8 Training and Development

Considering that training and development initiatives are critical for increasing productivity of employees, the focus is on capacity building of employees across the organization. During FY19, diverse capacity building opportunities were provided through participation of promising employees in training programs at NIBAF, domestic institutions of repute (IBA, LUMS, IBP etc.) and foreign training

institutes. Moreover, Training Budget to all Field Offices has been allocated for conducting in-house training sessions and nominations of officers in local training institutions. Brief summary of various training tracks and number of participants is given in **Table 6.4**. Major initiatives are provided in **Box 6.3**.

<b>Table 6.4: Participation levels in Training Tracks</b>	
<b>Training Tracks</b>	<b>No. of Participants</b>
NIBAF (Isb & Khi) Campuses	1,201
In-house Trainings at Field Offices	1,765
External Domestic Trainings (LUMS, IBA etc.)	316
Foreign Trainings	11
LAMS (E-Learning Portal)	371
<b>Total</b>	<b>3,664</b>

### **Box 6.3: Brief on Training Initiatives during FY19**

#### **(1) Curriculum Revision of Pre-Induction Training Program**

An external consultant has been engaged to conduct the Training Need Assessment (TNA) for new inductees. Based on consultant report and feedback received from GHs/RHs/Master Trainers/NIBAF, the duration of course, module wise contents and training methodology has been amended.

#### **(2) Revision of MLDP (Management & Leadership Development Program)**

The existing course content of MLDP has been updated based on feedback of the concerned stakeholders by including dinner talks, mock exercises and workplace etiquettes.

#### **(3) YPIP Hands on Training**

03-weeks Hands-on-training to YPIP- 7<sup>th</sup> Batch was arranged wherein, they were provided with the detailed knowledge about operations. Further, they were also given the insight of PSPC & Currency operations (BPAS) etc.

#### **(4) Pre-Induction Training Program of OTP 9th Batch**

A 5-week training program for the batch was organized at NIBAF, Islamabad. Curriculum was reviewed and necessary amendments were made to enhance effectiveness of the training program.

#### **(5) Skill Enhancement of Unionized Staff**

Various specialized trainings were designed, in coordination with CBA, for unionized staff. Trainings were aimed at enhancing the skills of employees in areas such as MS Excel, communication, cash operations, duties of workers as described in IRA and its recent developments etc.

#### **(6) Online exams through Learning Activity Management System - LAMS**

Three online exams had taken place during FY18, in which 371 officers participated across SBP BSC with a success ratio of 66.5%. A course "Cyber Security" has been added in LAMS portal and new Graphic User Interface has been developed for easy navigation and better user experience.

#### **(7) Guidelines for In-house and External Training sessions at Field Office**

Detailed guidelines for In-House and External training sessions were formulated and implemented accordingly which revamped training operations across SBP BSC. Further, comprehensive feedback forms was developed to monitor the effectiveness and efficiency of training programs.

#### **(8) Internship Program**

Summer and Winter internship programs were arranged for 379 students of 89 HEC recognized universities.

#### **(9) NIBAF E-Learning Portal**

A total of 159 officers were registered on E-Learning Portal launched.

## 6.9 Sports & Recreational Activities

In line with SBP's initiative to patronize sports activities, various sports events were successfully arranged that include tournaments against Inter Department Tape Ball Cricket, Football, Badminton and Table Tennis. The Bank's Cricket Teams (Men & Women) participated in various national tournaments organized by Pakistan Cricket Board and others wherein SBP Men Cricket Team triumphantly stands winners of Patron's Trophy Grade-II Tournament 2018-2019 and finished runners-up in Naya Nazimabad Flood Light Ramzan Cricket Tournament 2019. The Women's Cricket

Team on the other hand won the State Bank Women Cricket Championship 2018-19 and finished runners-up in PCB's Departmental T-20 Women Cricket Championship 2019. In addition to this SBP Inter Club Women Football Tournament and Inter School Boys & Girls Cricket Tournaments were also organized to promote talent at grass root level.

#### **6.10 Future Outlook**

Embracing a perceptive approach regarding the fast-changing landscape of the organization, SBP BSC is committed to further streamline its policy framework in order to pave the way for better integration of HR area with the evolving business needs. In this regard, HR policies are progressively being aligned with changing business outlook as a result of automation, BPR, workforce rationalization and blended HR profile attributable to fresh inductions. Furthermore, the department aims to sustain a work environment wherein every employee is empowered and provided with ample opportunities for professional development and career growth. For this purpose, SBP BSC through its HR function, pays attention to the suitable interventions e.g., development of career progression framework, conduct of training need assessment and development of training management system. Further as per practice, the Bank will also conduct its biennial compensation survey through an independent consultant for alignment of its compensation and benefits structure with the approved comparator organizations as envisaged in its compensation philosophy.

## 7 General Services

*The dynamic nature of business at State Bank of Pakistan and its subsidiaries demands provision of sustainable and efficient support services, which are provided by three dedicated departments of SBP Banking Services Corporation i.e. General Services Department (GSD), Engineering Department and Internal Bank Security Department (IBSD).*

### 7.1 Overview

SBP BSC provides efficient support services in the areas of General services, Engineering and Internal Bank Security to SBP and its subsidiaries / allied entities through coherent efforts. All support services remained focused on continuous improvements in related service delivery areas that include procurement, printing, security, physical environment and most importantly medical services.

### 7.2 General Services

General Services comprised of procurement of goods and services in transparent manner under the framework of Public Procurement Rules-2004. During FY19, goods and services worth of approximately Rs 1,252 million were procured in different categories. SBP BSC also manages printing of important journals and remained focused to provide quality health care services to employees of SBP and SBP BSC in cost effective manner.

#### 7.2.1 Initiatives / Achievements

As part of continuous processes improvement, SBP BSC through its General Services Department (GSD) took various initiatives during FY19 and successfully executed numerous assignments, some are highlighted below:

##### Box 7.1: Initiatives by GSD

- Successfully completed the procurement process and signed the contracts for:
  - Banknote Disintegration System (BDS).
  - Voice Recording Redundancy Solution for treasury operations.
  - SWIFT System Security and Operational Review.
- Upgradation and extension of Day Care Center.
- Capacity building of relevant indenting departments of SBP & SBP BSC.
- Disbursement of Salary through automated RTGS system.
- Activation of Retirement Benefit Module and Pension Arrear Calculation system in Oracle.
- Arranging of various health screening camps and enlistment of 3 “A” category hospitals on the Bank’s panel.

#### 7.2.2 Future Outlook

SBP BSC is adopting an online procurement system under *E-Procurement Project* for its procurement function. This will not only enhance the transparency in the procurement processes but will also improve the participation of prospective bidders. To harmonize the procurement practices, bidding documents will be standardized across SBP BSC offices followed by targeted training programs.

SBP BSC will also conduct a study of different procurement models adopted by various Public Sector Enterprises (PSEs) and will map the same with its processes for necessary amendments, if any. In order to ensure proper tracking and monitoring of cases and to avoid delays, robust MIS case tracking system will be developed.

Keeping in view the implementation of Knowledge Management System, SBP BSC is focused to work upon proper record keeping and preservation of record during upcoming year. Indexation and



synchronization of sensitive record will be done in order to preserve record in an easy-to-track manner.

## 7.3 Engineering Services

### 7.3.1 Overview

Engineering services continued its role to support, maintain and renovate the physical workplace of SBP and its related subsidiaries viz. SBP BSC and NIBAF. It remained engaged in renovation of the SBP's buildings and existing infrastructure, installation of high-grade equipment and repair/maintenance of already-installed electrical, telecommunication equipment and HVAC systems during FY19. SBP BSC strived to ensure efficient completion of all work streams with highest level of quality, and procured all works / services in accordance with the Public Procurement Rules in a fair & transparent manner.

### 7.3.2 Initiatives during the year

To further strengthen the performance of the engineering services, the standard Bill of Quantity (BOQ) template with detailed specifications, encompassing most commonly used items at SBP BSC has been formulated to ensure common Engineering practice across the Board. Some of the achievements during the year are elaborated below:

#### Box 7.2: Initiatives by Engineering

- Completion of project "Construction of Residential Block (Bachelor/ Family) at SBP BSC Quetta"
- Digitization of Engineering HOK drawing records
- Preparation of contract management manual having FIDIC as General Condition of Contract for mega building projects likely to be carried out in near future
- Provision of heat and sound proof uPVC windows from 4<sup>th</sup> to 10<sup>th</sup> floor of SBP Main Building
- Up gradation & Improvement of Physical Environment of BSC House at 4<sup>th</sup> floor
- Completion of projects (a) Supply, Installation of 11KV VCB Panel at SBP BSC Hyderabad (b) Re-construction of Boundary wall at SBP BSC Faisalabad (c) Supply, Installation of 45KVA generator at SBP BSC Quetta
- Establishment of FEAD court spaces at SBP BSC Lahore and Rawalpindi
- Installation of telephone exchange (PABX) at SBP BSC North Nazimabad and up gradation of exchange at SBP BSC Islamabad
- Commencement of projects (a) Renovation work for Establishment of NIBAF campus at SBP BSC Quetta (b) Fixing of false ceiling and lighting at SBP BSC Karachi and 2<sup>nd</sup> floor Academic block NIBAF Islamabad
- As a pilot project, Grid connected Solar Based system has been installed as an alternate source of energy for BCP Backup site at Karachi
- Resolution of more than 3000 complaints received from various stakeholders, related to Telecommunication, Electrical, Mechanical, Civil, Janitorial works etc.
- Fixing of false ceiling and lighting in main building of Peshawar office

### 7.3.3 Future Outlook

To move towards preventive maintenance, improved MIS and transparency in procurements various initiatives are being undertaken. These include maintenance of Engineering-related assets using Computerized Maintenance Management Software which would ensure preventive and repair maintenance scheduling of assets with graphical representation of cost incurred over years. In addition, SBP BSC has also been examining the efficacy of e-Procurement and e-Billing system for SBP BSC wide procurement before digitizing the existing manual tendering and billing process.

## 7.4 Internal Bank Security Services

### 7.4.1 Overview

Internal Bank Security Services sets out its operational priorities to help SBP and SBP BSC achieve their overall strategic objectives under the prevailing security environment. Internal bank Security Department (IBSD) strives to provide safe and secure work environment through sustained in-house

security mechanism and maintaining close coordination with relevant Law Enforcement Agencies (LEAs). Accordingly, enhanced security vigilance ensured uninterrupted banking operations at all Field Offices throughout the year. For the purpose, field offices also maintained close liaison with local Police/Rangers/ Civil Defense/Fire Brigade and other law-enforcement agencies, for assistance on need basis.

#### **7.4.2 Developmental Initiatives**

During FY19, IBSD continued its efforts for strengthening the security measures at SBP, SBP BSC HOK/Field Offices and NIBAF:

##### **Box 7.3: Initiatives by IBSD**

- Review of Security Arrangements and Systems at SBP HOK Complex and five major field offices by National Electronic Complex of Pakistan (NECOP).
- Preparation of Draft Fire & Safety Manual to provide guidelines, SOPs and direction to all Field Offices and employees.
- Conducting regular physical efficiency tests of security personnel, and also arranging weapons firing practices.
- Capacity-building through on-the-job training, in-house firefighting rehearsals and periodic Mock/Table Top exercises.
- Procurement and maintenance of weapons, search, surveillance and firefighting equipment.
- General awareness of the employees regarding security / safety precautions through online messaging.

#### **7.4.3 Future Outlook**

SBP BSC intends to strengthen its security services through installation of Integrated Security Systems based on NECOP report and enhancing capacity of department to manage varying level of security threats.

## 8 Internal Audit

*Internal Audit Department follows Risk based audit approach in examining and evaluating SBP BSC's framework of risk management, controls and governance processes.*

### 8.1 Overview

Internal Audit function acts as a trusted advisor to the senior management and Audit Committee of SBP BSC Board, in providing independent reviews on internal controls, Enterprise Risk Management (ERM) and governance processes of the organization. Internal Audit also recommends improvements in internal controls besides assisting the Audit Committee in effective oversight of SBP BSC operations.

### 8.2 Operational Performance

During FY19, twenty five full scope annual audits were conducted. These included audits of sixteen Field Offices across the country and nine Departments at Head Office Karachi. In addition to the annual audits, critical operational activities in the business areas of Currency Management, Banking and Prize Bonds were regularly reviewed through thirty two audits by three field audit hubs at Karachi, Lahore and Rawalpindi.

Table 8.1: Summary of Audit Engagement Types	
Audit Engagement Type	Engagements Conducted
Annual Audits	25
Hub Audits	32
Thematic Audits	6
Special Assignments	3
<b>Total</b>	<b>66</b>

Thematic audit was also carried out in the areas of Government Banking, National Bank of Pakistan (NBP) Chest operations and reporting and payment of prize money of National Prize Bonds. The main objective of thematic exercise was to evaluate overall process, control effectiveness and to identify further improvements in these areas. In addition, special assignments on sports activities, Electronic Letter Management System (ELMS) and Biometric Access Control & E-Attendance System (BACES) were also conducted. A new audit hub at Rawalpindi was established for swift access and outreach of audit function to the field offices of the North Region.

During the year, the audit function intensified its follow-up process and these efforts have enhanced the compliance level at SBP BSC. Resultantly, 1,706 audit observations were settled by the field offices and departments during the year, which considerably reduced irregularities in operations being carried out at Departments/Field Offices.

Capacity building of auditors as well as officers working at Internal Monitoring Units of Field Offices remained a higher priority. Similar to last year, audit attachments were carried out for IMU officers from different field offices to improve their auditing skills. A first ever training program on “Auditing T-24” was arranged for auditors in coordination with HRMD and Information Technology Group (ITG) SBP. This five-day course was conducted by NDC Tech, a local partner of Temenos.

### 8.3 Developmental Initiatives

During FY19, the focus of audit functions remained on bringing continuous improvement in its operations and add further value to the organization's working environment. Four development projects were embarked upon, which included (1) Technology Audit Universe for SBP BSC, (2)

Concept paper on Potential of Data Analytics in audit, (3) Alignment of Control and Risk Rating System with ERM Framework and (4) Revision of Internal Audit Charter. All these projects were successfully completed within the stipulated timelines. Further, Technology Audit Universe project set the path for a medium-term technology audit plan with the consent of all major stakeholders from SBP i.e. ITG, Internal Audit & Compliance Department (IACD), Risk Management Department (RMD), Office of Chief Information Security Officer (OCISO) and business departments of SBP BSC. The concept paper on Data Analytics highlighted the roadmap for adopting the paradigm of “Continuous Auditing”, initially in selected areas. Alignment of Internal Audit Department (IAD)’s Control & Risk Rating System (CRRS) with ERM Framework is a major milestone that was successfully completed this year. This endeavor will align the business and audit segments of SBP BSC for identifying, assessing and ranking of risks on a common risk-ranking framework. Internal Audit Charter has been revised with the approval of Audit Committee of the Board to align it with the Institute of Internal Auditors (IIA) standards.

#### **8.4 Future Outlook**

As the business operations of SBP BSC are being increasingly digitized, it is imperative for the internal audit function to be evolved such that implemented controls be audited through the system. Accordingly, the audit function is following up on its concept paper on data analytics to plan the implementation of “Continuous Auditing” for select business areas. Going forward, the audit function envisaged a development project for adopting the concept of Agile Auditing in its audit engagements, which will add swiftness and flexibility in the annual audit process. Similarly, another project has been designed which is expected to add value to the audit process at SBP BSC, is Meta Data Repository of Audit Universe, whereby selected information will be collected on regular basis from business areas for analysis by its field audit teams. A Framework to assess the state of compliance of various laws, rules and regulations by SBP BSC will also be developed.

## 9 Strategic & Corporate Affairs

*The administration of strategic and corporate affairs at SBP BSC comprises of a vast array of functions undertaken to facilitate and support the Corporate Governance Framework so as to articulate the future strategic direction of the Bank.*

### 9.1 Overview

The prime function of operations pertaining to management of strategic and corporate affairs consists of facilitating and supporting the Corporate Governance Framework at SBP BSC. For the purpose, an effective decision support system is enabled through conduct of the Board's and its Committees' meetings, management committees' meetings, reinforcement of the management's efforts aimed at formulating the strategic plans, devising of business plans and implementation of these plans in accordance with the Bank's vision.

### 9.2 Performance Review of Strategic and Corporate Affairs Department

#### 9.2.1 Strategic and Business Planning at SBP BSC

The strategic and business planning of the Bank is spearheaded by the Strategic and Corporate Affairs Department. In order to align departmental and regional objectives with the long-term strategic vision of the organization, the Business Planning exercise is conducted at SBP BSC every year. For the purpose, each Department and Field Office drafts its respective business plan and are reviewed by the senior management. Once the proposed business plans are approved, the same are executed by concerned offices and departments and are monitored by the senior management on a periodic basis. Accordingly various strategic initiatives envisaged by SBP BSC as well as those emanating from the SBP Strategic Vision 2020 are carried out throughout the year either through the business planning process. A region-wise comparison of reviewed projects of HOK Departments and Field Offices is shown in **Table 9.1**.

Table 9.1: Number of Business Plan projects reviewed/processed during FY18 and FY19			
Sr. No.	Regions	FY19	FY18
1.	HOK Departments	138	67
2.	North Region Field Offices	72	80
3.	Central Region Field Offices	132	97
4.	South Region Field Offices	75	88
<b>Total</b>		<b>417</b>	<b>332</b>

#### 9.2.2 Board and its Committees

For providing effective support to the Corporate Governance Framework at SBP BSC, meetings of SBP BSC Board and its Committees on Audit, HR, Security Review and Publications Review are held periodically. The organization of meetings involves coordination with the members of Board of Directors, and recording and subsequent dissemination of decisions to the relevant stakeholders. The details on number of meetings of the SBP BSC Board and its Committees held during the year under review is provided in **Table 9.2**.

In accordance with SBP BSC's automation drive for reduction in paper work, the practice of conducting the meetings in a paperless environment has been successfully initiated. For the purpose, a secure web portal

has been established through which relevant working papers are uploaded to the tablet PCs of members of Board of Directors. Further, an organization wide Electronic Letter Management System (ELMS) was successfully implemented.

### 9.2.3 Heads of Department and Chief Managers Forum

Heads of Departments (HoDs) and Chief Managers' (CMs) Forums serve as the key senior-level decision making bodies for deliberating upon various strategies/policies. Four such meetings were held during FY19.

Sr. No.	Name of the Forum	Number of Meetings held
1.	SBP BSC's Board of Directors	04
2.	Audit Committee of the Board	06 <sup>4</sup>
3.	Human Resources Committee of the Board	04 <sup>5</sup>
4.	Security Review Committee of the Board	02 <sup>6</sup>
5.	Publication Review Committee of the Board	01 <sup>7</sup>

### 9.2.4 Management Committees

In order to facilitate the senior management in collective decision-making process, secretariats of management committees on various operational areas e.g., publications, BPR, training etc. have been established at SBP BSC. The meetings of these committees are held on periodical/need basis.

### 9.2.5 Annual Performance Review

Annual Performance Review (APR) is the flagship publication of SBP BSC. The APR highlights major business and operational activities performed during a financial year. The document is reviewed by Management Committee on Publications, before being reviewed by the Publication Review Committee of SBP BSC Board. The PRC, constituted to provide oversight to the Publications, recommends the same to the Board for its approval.

### 9.2.6 Systems and Procedures

First-level helpdesk support and services for effective utilization of T24 Banking and Currency Systems across the Corporation are provided in-house to the users across Pakistan. In addition, liaison is made with all departments for their active feedback, aimed at making periodic improvements in the operational/transactional activity through development tasks and strengthening of system-based internal controls. A comparison of the number of incidents resolved during FY19 and FY18

Area	FY19	FY18
T24 Banking	10,662	14,076
T24 Currency	4,716	6,467
<b>Total</b>	<b>15,378</b>	<b>20,543</b>

reflects reduction of 33.6 percent in the number of incidents as shown in **Table 9.3**. This is mainly due to the initiative of empowering Systems and Procedures Units (SPUs) at Field Offices wherein rights to change user profile of T24 Banking and Currency users were granted to SPU Staff. During FY19, another helpdesk was established for providing support to users of SBP BSC related to Oracle ERP/CBA.

<sup>4</sup> Including one exclusive meeting of SBP BSC

<sup>5</sup> Including one exclusive meeting of SBP BSC

<sup>6</sup> All two exclusive meetings of SBP BSC

<sup>7</sup> One exclusive meeting of SBP BSC

### **9.3 Future Outlook**

A significant initiative planned for FY20 is the development of SBP BSC Strategic Plan 2021-2025, which will be in line with the SBP Vision 2025 and also includes the strategic initiatives already undertaken by the management. Strategic Plan will provide a clear direction and will aid in formulating measurable goals throughout the organization. In addition, SBP BSC also plans to further streamline the Business Planning process to ensure that all developmental and operational projects create tangible impact and are closely aligned with the Strategic Plan.

# 10 Financial Statements of SBP BSC

*Audited Financial Statements of SBP BSC are presented which comprise the balance sheet as at 30<sup>th</sup> June 2019, profit and loss account, statement of comprehensive income, statement of change in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.*

## EY FORD RHODES

Chartered Accountants  
Progressive Plaza  
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Karachi-75530

## KPMG TASEER HADI & CO.

Chartered Accountants  
Sheikh Sultan Trust, Building  
No. 2 Beaumont Road  
Karachi-75530

## Independent Auditor's Report

### To the Board of Directors and State Bank of Pakistan

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

### Opinion

We have audited the financial statements of the SBP Banking Services Corporation (the Corporation), which comprise the balance sheet as at June 30, 2019, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

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

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going



concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

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**EY FORD RHODES**  
Chartered Accountants

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**KPMG TASEER HADI & CO.**  
Chartered Accountants

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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**EY FORD RHODES**

Chartered Accountants

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**KPMG TASEER HADI & CO.**

Chartered Accountants

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

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

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**EY Ford Rhodes**

Chartered Accountants

Karachi

**Omer Chughtai**

Audit Engagement Partner

Dated: 24<sup>th</sup> October 2019

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**KPMG Taseer Hadi & Co.**

Chartered Accountants

Karachi

**Mohammad Mahmood Hussain**

Audit Engagement Partner

**SBP BANKING SERVICES CORPORATION**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2019**

	Note	2019 ----- (Rupees in '000) -----	2018
<b>ASSETS</b>			
Current account with the State Bank of Pakistan		<b>44,969,274</b>	50,042,724
Investments	5	<b>517,552</b>	521,419
Employee loans	6	<b>9,605,805</b>	9,152,123
Advances, deposits and prepayments	7	<b>60,410</b>	100,983
Medical and stationery consumables	8	<b>247,357</b>	190,334
Property and equipment	9	<b>833,556</b>	895,356
<b>Total assets</b>		<b>56,233,954</b>	60,902,939
<b>LIABILITIES</b>			
Deposits and other liabilities	10	<b>4,939,574</b>	5,074,430
Deferred liabilities - unfunded staff retirement benefits	11	<b>50,294,380</b>	54,828,509
<b>Total liabilities</b>		<b>55,233,954</b>	59,902,939
<b>Net assets</b>		<b>1,000,000</b>	1,000,000
<b>REPRESENTED BY:</b>			
<b>Share capital</b>	12	<b>1,000,000</b>	1,000,000
<b>CONTINGENCIES AND COMMITMENTS</b>	13		

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

\_\_\_\_\_  
**Muhammad Ashraf Khan**  
Managing Director

\_\_\_\_\_  
**Shaukat Zaman**  
Group Head

**SBP BANKING SERVICES CORPORATION**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Note	2019 ------(Rupees in '000)-----	2018
Discount and interest earned	14	45,295	31,315
Net operating expenses	15	14,548,477	14,917,727
Reimbursable from the State Bank of Pakistan	15	(8,060,641)	(8,544,648)
Allocated to the State Bank of Pakistan:			
- Credit loss on employee loans	15 & 6.2	(121)	-
- Others	15	(6,487,715)	(6,373,079)
		-	-
Operating profit		45,295	31,315
Gain on disposal of property and equipment		9,084	4,504
Profit for the year		54,379	35,819

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

\_\_\_\_\_  
**Muhammad Ashraf Khan**  
 Managing Director

\_\_\_\_\_  
**Shaukat Zaman**  
 Group Head

**SBP BANKING SERVICES CORPORATION**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Note	2019 ------(Rupees in '000)-----	2018
Profit for the year		54,379	35,819
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to the profit and loss account:</b>			
Gain / (loss) on remeasurements of defined benefit plans	15.2.4.1	6,038,910	(2,961,549)
Allocated to the State Bank of Pakistan		(6,038,910)	2,961,549
		-	-
<b>Total comprehensive income for the year</b>		<b>54,379</b>	<b>35,819</b>

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

\_\_\_\_\_  
**Muhammad Ashraf Khan**  
Managing Director

\_\_\_\_\_  
**Shaukat Zaman**  
Group Head

**SBP BANKING SERVICES CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Note	Share capital	Unappropriated profit	Total
		-----	(Rupees in '000) -----	
<b>Balance as at July 1, 2017</b>		1,000,000	-	1,000,000
Total comprehensive income for the year		-	35,819	35,819
<b>Transaction with the owner</b>				
Profit transferred to the State Bank of Pakistan		-	(35,819)	(35,819)
<b>Balance as at June 30, 2018</b>		<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Adjustment on initial application of IFRS 9	6.2	-	(248)	-
Impact on initial application of IFRS 9 transferred to State Bank of Pakistan		-	248	-
<b>Restated balance as at July 1, 2018</b>		<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total comprehensive income for the year		-	54,379	54,379
<b>Transaction with the owner</b>				
Profit transferred to the State Bank of Pakistan		-	(54,379)	(54,379)
<b>Balance as at June 30, 2019</b>		<u><u>1,000,000</u></u>	<u><u>-</u></u>	<u><u>1,000,000</u></u>

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

\_\_\_\_\_  
**Muhammad Ashraf Khan**  
 Managing Director

\_\_\_\_\_  
**Shaukat Zaman**  
 Group Head

**SBP BANKING SERVICES CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Note	2019 ------(Rupees in '000)-----	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit after adjustment of non-cash items	16	41,740	26,588
Profit transferred to the State Bank of Pakistan		(54,379)	(35,819)
Income on Government securities received during the year		40,689	26,186
		<b>28,050</b>	16,955
<b>Decrease / (Increase) in assets</b>			
Current account with the State Bank of Pakistan - excluding depreciation and expense in respect of staff retirement benefits and compensated absences		724,092	217,371
Medical and stationery consumables		(57,023)	(25,512)
Employee loans		(454,051)	329,771
Advances, deposits and prepayments		39,955	(51,402)
<b>(Decrease) / Increase in liabilities</b>			
Deposits and other liabilities		(5,895)	(183,116)
<b>Net cash generated from operating activities</b>		<b>275,128</b>	304,067
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investments - net		(33,267)	(10,700)
Capital expenditure		(257,554)	(303,013)
Proceeds from disposal of property and equipment		15,693	9,646
<b>Net cash used in investing activities</b>		<b>(275,128)</b>	(304,067)
<b>Net increase in cash and cash equivalents</b>		-	-
Cash and cash equivalents at beginning of the year		-	-
<b>Cash and cash equivalents at the end of the year</b>		-	-

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

\_\_\_\_\_  
**Muhammad Ashraf Khan**  
Managing Director

\_\_\_\_\_  
**Shaukat Zaman**  
Group Head

**SBP BANKING SERVICES CORPORATION NOTES TO AND FORMING  
PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE  
30, 2019**

**1. STATUS AND NATURE OF OPERATIONS**

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

- disbursing of loans and advances to the Governments, banks, financial institutions and local authorities and facilitating in inter-bank settlement system;
- collecting revenue and making payments for and on behalf of, and maintaining accounts of the Governments, local bodies, authorities, companies, banks and other financial institutions;
- receipt, supply and exchange of bank notes and coins;
- dealing in prize bonds and other savings instruments of the Government; and
- operational work relating to management of debt and foreign exchange.

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

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

**2. STATEMENT OF COMPLIANCE**

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

**3. BASIS OF MEASUREMENT**

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

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

**3.3 Use of estimates and judgments**

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

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



**3.3.1 Retirement benefits**

The key actuarial assumptions concerning the valuation of defined benefit plans and sources of estimation are disclosed in note 15.2.2 to these financial statements.

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

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

**3.3.3 Provision against obsolete medical and stationery consumables**

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

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

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

<b>Standards</b>		<b>Effective date (annual periods beginning on or after)</b>
-	IFRS 17 - 'Insurance contracts'	01 January 2021
-	IFRS 16 - 'Leases'	01 January 2019
<b>Amendments</b>		<b>Effective date (annual periods beginning on or after)</b>
Amendments to IAS 28 - Long term interest in associates and joint ventures		01 January 2019
Amendments to IFRS 9 'Financial Instruments' – Prepayment Features with Negative Compensation		01 January 2019
Amendments to IFRS 3 - Definition of Business		01 January 2020
Amendments to IAS 19 - 'Employee Benefits'		01 January 2019
Amendments to IFRS 10 – 'Consolidated Financial Statements' and IAS 28 – 'Investments in Associates and Joint Ventures' regarding sale or contribution of assets between an investor and its associate or joint venture		Date yet to be finalized
Amendments to IAS 1 and IAS 18 - Definition of Material		01 January 2020
<b>Interpretations</b>		
IFRIC 23, 'Uncertainty over income tax'		01 January 2019
<b>Improvements</b>		
IFRS 3, 'Business Combination' regarding previously held interest in a joint operation		01 January 2019
IFRS 11, 'Joint Arrangements' regarding previously held interest in a joint operation.		01 January 2019
IAS 12, 'Income Taxes' regarding income tax consequences of payments on financial instruments classified as equity.		01 January 2019

IAS 23, 'Borrowing Cost' regarding borrowing cost eligible for capitalisation.

01 January 2019

The Corporation expects that the adoption of the above standards, amendments, interpretations and improvements will not have any material impact on the Corporation's financial statements in the period of initial application.

### **3.5 New and amended standards, interpretations and amendments to published approved accounting standards that are effective in the current year**

There are certain new and amended standards and interpretations that are mandatory for the accounting period beginning on or after 1 July 2018, but are considered not to be relevant or do not have any significant effect on the Corporation's operations and are, therefore, not disclosed in these financial statements except for IFRS 9 and IFRS 7R.

#### **3.5.1 IFRS 9 Financial Instruments**

The Corporation has initially adopted IFRS 9 from 01 July 2018. Due to the transition method chosen by the Corporation in applying IFRS 9, comparative information throughout these financial statement have not generally been restated to reflect its requirements.

##### **3.5.1.1 Changes to classification and measurement**

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

##### **3.5.1.2 Changes to the impairment calculation**

The adoption of IFRS 9 has fundamentally changed the Corporation's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Corporation to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

#### **3.5.2 IFRS 7R**

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures were updated and the Corporation has adopted it, together with IFRS 9, for the year beginning 1 July 2018. Changes include transition disclosures as shown in Note 3.5.3, 3.5.4 and 3.5.5.

Reconciliations from opening to closing ECL allowances are presented in Note 6.2.

### 3.5.3 Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 July 2018 are compared as follows:

IAS 39		IFRS 9		
Financial Assets	Measurement category	Carrying Amount	Measurement category	Carrying Amount
(Rupees in '000)				
<b>Current account with the State Bank of Pakistan</b>	Loans and receivable	50,042,724	Amortised cost	50,042,724
<b>Investments</b>				
Market treasury bills	Held to maturity	521,419	Amortised cost	521,419
<b>Employee Loans</b>	Loans and receivable	9,152,123	Amortised cost	9,151,875
<b>Advances and deposits</b>	Loans and receivable	26,562	Amortised cost	26,562
IAS 39		IFRS 9		
Financial liabilities	Measurement category	Carrying Amount	Measurement category	Carrying Amount
<b>Other deposits and accounts</b>	Amortised cost	1,018,844	Amortised cost	1,018,844

### 3.5.4 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Corporation performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 4 for more detailed information regarding the new classification requirements of IFRS 9. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 July 2018:

IAS 39		IFRS 9		
Financial Assets	IFRS 9 carrying amount as at June 30, 2018	Reclassification	Remeasurements	IFRS 9 carrying amount as at July 1, 2018
(Rupees in '000)				
<b>Amortised Cost</b>				
<b>Current account with the State Bank of Pakistan</b>				
Transfer from loan and receivables under IAS 39	-	50,042,724	-	50,042,724
<b>Closing balance under IFRS 9</b>	-	-	-	<b>50,042,724</b>
<b>Investment - local</b>				
Transfer from held to maturity under IAS 39	-	521,419	-	521,419
<b>Closing balance under IFRS 9</b>	-	-	-	<b>521,419</b>
<b>Employee Loans</b>				

Transfer from loan and receivables under IAS 39	-	9,152,123	-	9,152,123
Remeasurement: ECL allowance	-	-	248	248
<b>Closing balance under IFRS 9</b>	-	-	-	<b>9,151,875</b>
<b>Advances and deposits</b>				
Transfer from loan and receivables under IAS 39	-	26,562	-	26,562
<b>Closing balance under IFRS 9</b>	-	-	-	<b>26,562</b>

### 3.5.5 Reconciliation of impairment allowance balances from IAS 39 to IFRS 9

The Corporation performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 4 for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the prior period closing impairment allowance measured in accordance with IAS 39 incurred losses model to the new impairment allowance measured in accordance with IFRS 9 expected credit loss model applied from 01 July 2018.

The Corporation have adopted IFRS 9 stage 1 level for impairment allowance calculation against which remeasured impairment allowance is as follows:

Measurement Category	Loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurements	Loss allowance under IFRS 9
<b>Amortised Cost</b>				
Employee loans	7,715	-	248	7,963

## 4. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

### 4.1 Financial assets and Financial Liabilities

#### 4.1.1 Classification

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

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

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

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

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

#### 4.1.2 Financial assets at amortised cost

From 1 July 2018, the Corporation classifies its financial assets as at amortized cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

After initial measurement, these financial instruments are subsequently measured at amortized cost using the Effective Interest Rate (EIR), less impairment.

Before 1 July 2018, loans and receivables included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Subsequent to initial recognition, these assets were carried at amortised cost less impairment losses, if any, and premiums and / or discounts were accounted for using the effective interest method. All loans and receivables were recognized when cash is advanced to borrowers. When a loan became uncollectible, it was written off against the related provision for impairment. Subsequent recoveries were credited in the profit and loss account.

#### 4.1.3 Impairment of financial instruments

##### 4.1.3.1 Overview of the ECL principles

As described in Note 3.5.1.2, the adoption of IFRS 9 has fundamentally changed the Corporation's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 July 2018, the Corporation has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL)), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in 4.1.3.2). The Corporation's policies for determining if there has been a significant increase in credit risk is set out in 18.1.5.

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

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

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

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

- Stage 1: When loans are first recognised, the Corporation recognises an allowance based on 12mECLs. Stage 1 Loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Corporation records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

- Stage 3: Loans considered credit-impaired (as outlined in note 18.1.2). The Corporation records an allowance for the LTECLs.

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

#### 4.1.3.2 The calculation of ECLs

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

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

- PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 18.1.3.
- LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 18.1.4.

When estimating the ECLs, the Corporation considers three scenarios (a base case, a best case, and a worse case). Each of these is associated with different PDs, EADs and LGDs as set out in note 4.1.3.1. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received from selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Corporation has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Corporation calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Corporation records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired, the Corporation recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- Financial guarantee contracts: The Corporation's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose,

the Corporation estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

#### **4.1.3.3 Forward looking information**

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

#### **4.1.4 Impairment of financial assets (Policy applicable before 1 July 2018)**

##### **a) Financial assets carried at amortised cost**

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

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying value of the assets was reduced through the use of an allowance account and the amount of the loss was recognised in the profit and loss account. If in a subsequent year the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss was increased or reduced by adjusting the allowance account. If in a subsequent period the amount of impairment loss decreased and the decrease could be linked objectively to an event occurring after the write down, the write down or allowance was reversed through the profit and loss account.

##### **b) Available-for-sale financial assets**

For available-for-sale financial assets, the Corporation assessed at each balance sheet date whether there was an objective evidence that an investment was impaired. In case of equity investment classified as available-for-sale, significant or prolonged decline in the fair value of the security below its cost was considered in determining whether the assets were impaired. If any such evidence existed for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss account, was reclassified from other comprehensive income and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments were not reversed through the income statement till the time investments were sold or disposed off.

#### **4.1.5 Derecognition of financial assets and financial liabilities**

##### **a) Financial assets**

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

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

**b) Financial liabilities**

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

**4.1.6 Fair value measurement principles**

The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market prices or dealer price quotation without any deduction for transaction costs. If there is no active market for a financial asset, the Corporation establishes fair value using valuation techniques. These include the use of recent arms length transactions, discounted cash flow analysis and other revaluation techniques commonly used by market participants. Investments in securities of which the fair value cannot be determined reliably are carried at cost.

**4.1.7 Offsetting of financial assets and financial liabilities**

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

**4.2 Employee loans**

These are initially recognized at fair value and subsequently carried at amortised cost less estimates made for any impairment loss based on a review of all outstanding amounts at the balance sheet date.

**4.3 Medical and stationery consumables**

Medical and stationery consumables are valued at lower of weighted average cost and the net realisable value. Provision for obsolete items is determined based on the management's assessment regarding their future usability. Net realisable value represents estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

**4.4 Property and equipment**

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

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

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. The assets' residual value, depreciation method and useful life are reviewed, and adjusted if appropriate, at each 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 benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to the profit and loss account as and when incurred.

#### **4.5 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's fair value less cost to sell and value in use. In assessing the value in use, estimated future cash flows are discounted to present value using a discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount.

#### **4.6 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 New Contributory Provident Fund Scheme - NCPF (new scheme) effective from July 1, 2010. Under this scheme, contribution is made by both the employer and employee at the rate of 6% of the 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 only at the rate of 5% of the monetized salary.
- c) the following other staff retirement
  - an un-funded gratuity scheme (old scheme) for all employees other than the employees who opted for the new general contributory provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;
  - a funded New Gratuity Fund (NGF) which was introduced by the Corporation effective from July 1, 2010 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);
  - an un-funded pension scheme for those employees who joined the SBP after 1975 and before the introduction of NGF which is effective from July 1, 2010;
  - an un-funded contributory benevolent fund scheme;
  - an un-funded post retirement medical benefit scheme; and
  - six months post retirement benefit facility.

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

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard has been carried out as at June 30, 2019. The amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the period in which they occur. The amount arising as

a result of remeasurement is allocated to the State Bank of Pakistan, however, the liability is retained in the balance sheet of the Corporation.

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 15.2.2 to these 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.
- All other revenues are recognised on a time proportion basis.

#### 4.9 Taxation

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

#### 4.10 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.

#### 4.11 Grants

Grants received on account of capital expenditure are recorded as deferred income and are amortized over the useful life of the relevant asset. The grants received on account of revenue expenditures are recorded as and when the expenditure is incurred.

	<i>Note</i>	<b>2019</b>	2018
		----- <b>(Rupees in '000)</b> -----	
<b>5. INVESTMENTS</b>			
<b>Amortized cost</b>			
Market Treasury Bills	<i>5.1 &amp; 5.2</i>	<u><b>517,552</b></u>	521,419
		<u><b>517,552</b></u>	<u>521,419</u>
<b>5.1</b>	Market Treasury Bills carry mark-up at ranging between 11.00% to 12.68% per annum (2018: 5.90% to 6.26% per annum) and maturity dates ranging between August 1, 2019 to August 15, 2019 (2018: July 5, 2018 to August 16, 2018).		
<b>5.2</b>	The fair value of these investments as at June 30, 2019 is Rs. 525.42 million (2018: Rs. 523.971 million). Market Treasury Bills have been revalued on the basis of yields published by Reuters (PKRV) for Government securities.		
	<i>Note</i>	<b>2019</b>	2018
		----- <b>(Rupees in '000)</b> -----	
<b>6. EMPLOYEE LOANS</b>			
Considered good		<b>9,605,805</b>	9,152,123
Considered doubtful		<u><b>7,131</b></u>	7,715
	<i>6.1</i>	<u><b>9,612,936</b></u>	9,159,838
Impairment loss allowance	<i>6.2</i>	<u><b>(7,131)</b></u>	(7,715)
		<u><b>9,605,805</b></u>	<u>9,152,123</u>
<b>6.1</b>	This represents loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 24.608 million (2018: Rs. 28.905 million) that carry mark up at 10% per annum (2018: 10% per		

annum). Maximum maturity of loans is upto year 2058 (2018: year 2056).

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	2019 ------(Rupees in '000)	2018 -----
<b>6.2 Impairment loss allowance against employee loans</b>			
Opening balance		7,715	7,737
Adjustment of initial application of IFRS 9		248	-
		<u>7,963</u>	<u>7,737</u>
Charge for the year		121	-
Reversals during the year		(953)	(22)
Closing balance		<u>7,131</u>	<u>7,715</u>

	Note	2019 ------(Rupees in '000)	2018 -----
<b>7. ADVANCES, DEPOSITS AND PREPAYMENTS</b>			
Prepayments		42,116	74,421
Advances and deposits		8,994	17,818
Others		9,300	8,744
		<u>60,410</u>	<u>100,983</u>

<b>8. MEDICAL AND STATIONERY CONSUMABLES</b>			
Medicines		128,531	125,207
Stationery		17,925	15,548
Engineering		38,386	26,975
Others		63,789	31,108
		<u>248,631</u>	<u>198,838</u>
Provision against obsolete items		(1,274)	(8,504)
		<u>247,357</u>	<u>190,334</u>

<b>9. PROPERTY AND EQUIPMENT</b>			
Operating fixed assets	9.1	833,556	894,993
Capital work-in-progress		-	363
		<u>833,556</u>	<u>895,356</u>

#### 9.1 Operating fixed assets

The following is a statement of operating fixed assets:

2019									
Cost				Accumulated Depreciation				Net book value as at June 30, 2019	Annual rate of depreciation %
As at July 01, 2018	Additions / (deletions)	Transferred from SBP	As at June 30, 2019	As at July 01, 2018	Charge for the year / (deletions)	Transferred from SBP	As at June 30, 2019		
.....				.....					
(Rupees in '000)									

(Rupees in '000)

Furniture & Fixtures	93,370	15,201 (1,234)	-	107,337	48,655	8,291 (1,234)	-	55,712	51,625	10
Office equipment	1,740,549	151,929 (5,265)	-	1,887,213	1,080,743	210,742 (5,265)	-	1,286,220	600,993	20
EDP equipment	568,739	1,020 (3,881)	-	565,878	461,829	54,356 (3,721)	-	512,464	53,414	33.33
Motor	214,523	87,749 (18,830)	3,255	286,697	130,961	39,356 (12,744)	1,600	159,173	127,524	20
	<b>2,617,181</b>	<b>255,899 (29,210)</b>	<b>3,255</b>	<b>2,847,125</b>	<b>1,722,188</b>	<b>312,745 (22,964)</b>	<b>1,600</b>	<b>2,013,569</b>	<b>833,556</b>	

2018									
Cost				Accumulated Depreciation				Net book value as at June 30, 2018	Annual rate of depreciation %
As at July 01, 2017	Additions / (deletions)	Transferred from SBP	As at June 30, 2018	As at July 01, 2017	Charge for the year / (deletions)	Transferred from SBP	As at June 30, 2018		
(Rupees in '000)									
127,676	6,365 (40,671)	-	93,370	81,128	7,735 (40,208)	-	48,655	44,715	10
1,632,112	193,271 (84,834)	-	1,740,549	983,217	180,422 (82,896)	-	1,080,743	659,806	20
530,262	90,794 (55,778)	3,461	568,739	453,624	62,761 (55,764)	1,208	461,829	106,910	33.33
210,069	9,967 (5,513)	-	214,523	101,673	32,074 (2,786)	-	130,961	83,562	20
2,500,119	300,397 (186,796)	3,461	2,617,181	1,619,642	282,992 (181,654)	1,208	1,722,188	894,993	

Note

**10. DEPOSITS AND OTHER LIABILITIES**

Provision for employees' compensated absences	15.2.10	<b>3,927,242</b>	4,055,586
Deposits		<b>290,716</b>	270,743
Others		<b>721,616</b>	748,101
		<b><u>4,939,574</u></b>	<b><u>5,074,430</u></b>

**11. DEFERRED LIABILITIES -  
UNFUNDED STAFF RETIREMENT  
BENEFITS**

Gratuity		<b>4,733</b>	3,966
Pension		<b>30,688,317</b>	37,044,817
Benevolent fund scheme		<b>745,023</b>	941,469
Post retirement medical benefits		<b>18,100,363</b>	16,056,121
Six months post retirement benefits		<b>135,210</b>	123,475
	15.2.4	<b><u>49,673,646</u></b>	<b><u>54,169,848</u></b>
Provident fund scheme		<b>620,734</b>	658,661
		<b><u>50,294,380</u></b>	<b><u>54,828,509</u></b>

**12. SHARE CAPITAL**

2019	2018	2019	2018
(Number of shares)		----- (Rupees in '000) -----	
<b>Authorised share capital</b>			

<u>1,000</u>	<u>1,000</u>	Ordinary shares of Rs. 1,000,000 each	<u>1,000,000</u>	<u>1,000,000</u>
<b>Issued, subscribed and paid-up capital</b>				
		Fully paid-up ordinary shares of Rs. 1,000,000 each		
509	509	- issued for cash	509,000	509,000
491	491	- issued against consideration in kind	491,000	491,000
<u>1,000</u>	<u>1,000</u>		<u>1,000,000</u>	<u>1,000,000</u>

### 13. CONTINGENCIES AND COMMITMENTS

#### 13.1 Contingencies

Claims against the Corporation not acknowledged as debts	13.1.1	<u>2,864</u>	<u>2,962</u>
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**13.1.1** These mainly represent various cases filed by ex-employees of the Corporation on account of computational differences in settlement of their retirement benefit amounts. The management believes that these cases will be decided in favour of the Corporation and hence no provision has been recognised in these financial statements.

	Note	2019 ----- (Rupees in '000)-----	2018
<b>13.2 Commitments</b>			
Capital commitments	13.2.1	<u>235,684</u>	<u>142,102</u>

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

	2019 ----- (Rupees in '000)-----	2018
<b>14. DISCOUNT AND INTEREST EARNED</b>		
Interest income on Government securities	44,244	30,913
Interest on employee loans	<u>1,051</u>	<u>402</u>
	<u>45,295</u>	<u>31,315</u>

### 15. NET OPERATING EXPENSES

	Note	2019 ----- (Rupees in '000)-----	2018
<b>Reimbursable from the State Bank of Pakistan</b>			
Salaries, wages and other benefits		5,931,240	6,513,590
Rent and taxes		42,714	39,591
Insurance		17,905	17,402
Electricity, gas and water		391,813	357,749
Repair and maintenance		336,502	268,492
Auditors' remuneration	15.1	8,160	7,700
Legal and professional		15,188	15,357
Travelling		29,966	24,146
Daily expenses		50,058	38,246
Passages / rest and recreational allowance		293,380	312,066
Fuel		4,523	3,688
Conveyance		21,127	19,368
Postages and telephone		17,521	14,643
Training		100,411	204,817
Remittance of treasure		174,077	147,329
Stationery		33,462	15,677
Books and newspapers		2,565	2,151
Advertisement		19,391	19,600

Bank guards charges	198,601	174,231
Uniforms	34,436	32,626
Others	337,601	316,179
	<b>8,060,641</b>	8,544,648

**Allocated to the State Bank of Pakistan**

Credit loss on employee loans	121	-
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**Others**

Retirement benefits and employees' compensated absences	15.2	6,174,970	6,090,087
Depreciation	9.1	312,745	282,992
		<b>6,487,715</b>	6,373,079
		<b>14,548,477</b>	14,917,727

**15.1 Auditors' remuneration**

	2019			2018		
	EY Ford Rhodes	KPMG Taseer Hadi & Co.	Total	EY Ford Rhodes	KPMG Taseer Hadi & Co.	Total
	(Rupees in '000)					
Audit fee	2,915	2,915	5,830	2,750	2,750	5,500
Out of pocket expenses	1,165	1,165	2,330	1,100	1,100	2,200
	<b>4,080</b>	<b>4,080</b>	<b>8,160</b>	<b>3,850</b>	<b>3,850</b>	<b>7,700</b>

**15.2 Staff retirement benefits**

**15.2.1** Charge for the year in respect of defined contribution plan amounted to Rs. 96.336 million (2018: Rs. 108.907 million).

**15.2.2** During the year the actuarial valuations of the defined benefit obligations were carried out under the Projected Unit

Credit Method using following significant assumptions:

	2019	2018
- Discount rate for year end obligation	14.25% p.a.	9.00% p.a.
- Salary increase rate (where applicable)	15% p.a.	10% p.a.
- Pension increase rate (where applicable)	8.5% p.a.	7.5% p.a.
- Medical cost increase rate (where applicable)	14.25% p.a.	9% p.a.
- Petrol price increase rate (where applicable)	15% p.a.	10% p.a.
- Personnel turnover	6.7% p.a.	18% p.a.
- Normal retirement age	60 Years	60 Years

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

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

**Discount rate risk**

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

**Salary increase / inflation risk**

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

**Mortality risk**

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

**Withdrawal risk**

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

**Pension Increase risk**

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

**15.2.4 Change in present value of defined benefit obligation**

2019						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
Reported Value						
Present value of defined benefit obligation as on July 1, 2018	37,044,817	3,966	16,056,121	941,469	123,475	54,169,848
Current service cost	633,407	431	389,380	2,738	8,673	1,034,629
Interest cost on defined benefit obligation	3,171,769	357	1,423,598	80,020	11,113	4,686,857
Benefits paid	(3,605,868)	-	(476,742)	(104,712)	-	(4,187,322)
Liability transferred from SBP	-	-	6,919	178	1,447	8,544
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	(6,448,140)	(59)	522,780	(181,860)	(191)	(6,107,470)
Experience adjustments	(107,668)	38	178,307	7,190	(9,307)	68,560
Present value of defined benefit obligation as on June 30, 2019	30,688,317	4,733	18,100,363	745,023	135,210	49,673,646

2018						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
Brought in SBP						
Present value of defined benefit obligation as on July 1, 2017	38,656,505	2,815	14,491,690	1,194,678	113,160	54,458,848
Current service cost	741,225	335	331,283	2,686	7,444	1,082,973
Interest cost on defined benefit obligation	2,691,358	218	1,104,266	91,164	8,734	3,895,740
Benefits paid	(7,858,601)	-	(486,205)	(36,737)	(934)	(8,382,477)
Liability transferred from SBP	116,667	-	29,442	2,391	4,715	153,215
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(62,092)	-	(62,092)
Experience adjustments	2,697,663	598	585,645	(250,621)	(9,644)	3,023,641
Present value of defined benefit obligation as on June 30, 2018	37,044,817	3,966	16,056,121	941,469	123,475	54,169,848

**15.2.4.1 Amount recognised in the Statement of Comprehensive Income**

2019						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
Brought in With						
- Actuarial (gain) from changes in financial assumptions	(6,448,140)	(59)	522,780	(181,860)	(191)	(6,107,470)
- Experience adjustments	(107,668)	38	178,307	7,190	(9,307)	68,560
						(6,038,910)

2018					
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
Brought in With					

- Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(62,092)	-	(62,092)
- Experience adjustments	2,697,663	598	585,645	(250,621)	(9,644)	3,023,641
						<u>2,961,549</u>

#### 15.2.5 Amount recognised in the Profit and Loss Account

2019						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
Benevolent fund						
Current service cost	633,407	431	389,380	2,738	8,673	1,034,629
Interest cost on defined benefit obligation	3,171,769	357	1,423,598	80,020	11,113	4,686,857
Contribution made by employees	-	-	-	(9,701)	-	(9,701)
	3,805,176	788	1,812,978	73,057	19,786	5,711,785

2018						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
Benevolent fund						
Current service cost	741,225	335	331,283	2,686	7,444	1,082,973
Interest cost on defined benefit obligation	2,691,358	218	1,104,266	91,164	8,734	3,895,740
Contribution made by employees	-	-	-	(7,913)	-	(7,913)
	3,432,583	553	1,435,549	85,937	16,178	4,970,800

#### 15.2.6 Movement of present value of defined benefit obligation

2019						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
Benevolent fund						
Net recognised liabilities at July 1, 2018	37,044,817	3,966	16,056,121	941,469	123,475	54,169,848
Amount recognised in the profit and loss account	3,805,176	788	1,812,978	73,057	19,786	5,711,785
Remeasurements	(6,555,808)	(21)	701,087	(174,670)	(9,498)	(6,038,910)
Benefits paid during the year	(3,605,868)	-	(476,742)	(104,712)	-	(4,187,322)
Employees contribution	-	-	-	9,701	-	9,701
Liability transferred from SBP	-	-	6,919	178	1,447	8,544
Net recognised liabilities at June 30, 2019	30,688,317	4,733	18,100,363	745,023	135,210	49,673,646

2018						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
Benevolent fund						
Net recognised liabilities at July 1, 2017	38,656,505	2,815	14,491,690	1,194,678	113,160	54,458,848
Amount recognised in the profit and loss account	3,432,583	553	1,435,549	85,937	16,178	4,970,800
Remeasurements	2,697,663	598	585,645	(312,713)	(9,644)	2,961,549
Benefits paid during the year	(7,858,601)	-	(486,205)	(36,737)	(934)	(8,382,477)
Employees contribution	-	-	-	7,913	-	7,913
Liability transferred from SBP	116,667	-	29,442	2,391	4,715	153,215
Net recognised liabilities at June 30, 2018	37,044,817	3,966	16,056,121	941,469	123,475	54,169,848

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

Impact on defined benefit obligation - Increase /
---



	Decrease		
	Change in Assumption	Increase in assumption	Decrease in assumption
------(Rupees in '000)-----			
<b>Pension</b>			
Discount rate	1%	(1,585,123)	1,801,452
Salary increase rate	1%	693,189	(660,658)
Pension increase rate	1%	1,201,241	(1,045,254)
Expected mortality rates	1 Year	386,397	(384,033)
<b>Gratuity Scheme</b>			
Discount rate	1%	4,539	4,937
Salary increase rate	1%	4,933	4,539
<b>Post retirement medical benefits</b>			
Discount rate	1%	(2,504,307)	3,179,370
Medical cost increase rate	1%	30,220	(27,346)
Salary increase rate	1%	3,241,165	(2,585,333)
Expected mortality rates	1 Year	357,772	(353,565)
<b>Benevolent fund scheme</b>			
Discount rate	1%	(25,646)	27,940
<b>Six months post retirement facility</b>			
Discount rate	1%	(6,678)	7,464
Salary / petrol increase rate	1%	7,740	(7,055)

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

#### 15.2.8 Duration of defined benefit obligation

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
Weighted average duration of the defined benefit obligation	6 Years	4 Years	16 Years	4 Years	5 Years

#### 15.2.9 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2020

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2020 would be as follows:

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
Rupees in '000-----						
Current service cost	568,887	492	444,676	1,248	9,811	1,025,114
Interest cost on defined benefit obligation	4,373,085	674	2,579,302	106,166	19,267	7,078,494

Amount chargeable to profit and loss account	4,941,972	1,166	3,023,978	107,414	29,078	8,103,608
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#### 15.2.10 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 3,927.242 million (2018: Rs. 4,055.586 million). An amount of Rs. 366.919 million (2018: Rs. 1,010.38 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, 2020 would be Rs. 791.849 million. The benefits paid during the year amounted to Rs. 502.214 million (2018: Rs. 1,453.36 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 163.845 million and Rs. 186.826 million respectively and the net liability would also be affected by the same amount. In case of 1% increase / decrease in salary rate the net charge for the year would increase / decrease by Rs. 197.961 million and Rs. 177.475 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employee's compensated absences is 4 years

#### 16. PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS

----- (Rupees in '000) -----

Profit for the year	54,379	35,819
Adjustments for:		
Accrued interest income on Government securities	(3,555)	(4,727)
Gain on disposal of property and equipment	(9,084)	(4,504)
	(12,639)	(9,231)
	<b>41,740</b>	<b>26,588</b>

#### 17. RELATED PARTY TRANSACTIONS

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

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

Transactions and balances with related parties are as follows:

	2019	2018
<b>Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - Subsidiary of Parent entity</b>	----- (Rupees in '000) -----	
<b>Balances at the year end - transferred to the State Bank of Pakistan</b>		
Payable against training programs	9,503	39,042
<b>Transactions during the year - reimbursable from State Bank of Pakistan</b>		
Training expense charged during the year	72,176	174,823

#### 18. RISK MANAGEMENT POLICIES

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

##### 18.1 Credit risk management

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

#### 18.1.1 Impairment assessment (Policy applicable from 1 July 2018)

The references below show where the Corporation's impairment assessment and measurement approach is set out in these financial statements. It should be read in conjunction with the summary of significant accounting policies.

#### 18.1.2 Definition of default

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

##### *Quantitative criteria*

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

##### *Qualitative criteria*

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

#### 18.1.3 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments. The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Corporation's models.

#### 18.1.4 Loss given default

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

#### 18.1.5 Significant increase in credit risk

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

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

#### 18.2 Concentration of risk

Concentration risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Corporation's significant concentration arising from financial instruments at the 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

2019

Sovereign	Others	Grand Total
-----------	--------	-------------

<b>Financial assets</b>	<b>(Rupees in '000)</b>		
Current account with the State Bank of Pakistan	44,969,274	-	<b>44,969,274</b>
Investments	517,552	-	<b>517,552</b>
Employee loans	-	9,605,805	<b>9,605,805</b>
Advances and deposits	-	18,294	<b>18,294</b>
	<u>45,486,826</u>	<u>9,624,099</u>	<u><b>55,110,925</b></u>
	2018		

	<b>Sovereign</b>	<b>Others</b>	<b>Grand Total</b>
<b>Financial assets</b>	<b>(Rupees in '000)</b>		
Current account with the State Bank of Pakistan	50,042,724	-	50,042,724
Investments	521,419	-	521,419
Employee loans	-	9,152,123	9,152,123
Advances and deposits	-	26,562	26,562
	<u>50,564,143</u>	<u>9,178,685</u>	<u><b>59,742,828</b></u>

#### 18.2.3 Credit exposure by credit rating:

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

	<b>2019</b>		
	<b>Sovereign (18.2.3.1)</b>	<b>Unrated</b>	<b>Grand Total</b>
<b>Financial Assets</b>	<b>(Rupees in '000)</b>		
Current account with the State Bank of Pakistan	44,969,274	-	<b>44,969,274</b>
Investments	517,552	-	<b>517,552</b>
Employee loans	-	9,605,805	<b>9,605,805</b>
Advances and deposits	-	18,294	<b>18,294</b>
	<u>45,486,826</u>	<u>9,624,099</u>	<u><b>55,110,925</b></u>
	2018		
	<b>Sovereign (18.2.3.1)</b>	<b>Unrated (Rupees in '000)</b>	<b>Grand Total</b>
<b>Financial Assets</b>			
Current account with the State Bank of Pakistan	50,042,724	-	50,042,724
Investments	521,419	-	521,419
Employee loans	-	9,152,123	9,152,123
Advances and deposits	-	26,562	26,562
	<u>50,564,143</u>	<u>9,178,685</u>	<u><b>59,742,828</b></u>

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

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

	<b>Gross amount</b>		<b>Impairment / Provision</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>(Rupees in '000)</b>			
Employee loans	<u><b>7,131</b></u>	<u>7,715</u>	<u><b>7,131</b></u>	<u>7,715</u>

#### 18.4 Liquidity analysis with interest rate risk

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

	2019						
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	Total
Financial assets	(Rupees in '000)						
Current account with the State Bank of Pakistan*	-	-	-	44,969,274	-	44,969,274	44,969,274
Investments	513,997	-	513,997	3,555	-	3,555	517,552
Employee loans	794	23,275	24,069	185,120	9,396,616	9,581,736	9,605,805
Advances and deposits	-	-	-	9,300	8,994	18,294	18,294
	514,791	23,275	538,066	45,167,249	9,405,610	54,572,859	55,110,925
Financial liabilities							
Deposits and other liabilities	-	-	-	1,012,332	-	1,012,332	1,012,332
On balance sheet gap	514,791	23,275	538,066	44,154,917	9,405,610	53,560,527	54,098,593
Capital Commitments	-	-	-	235,684	-	235,684	235,684
Off balance sheet gap	-	-	-	235,684	-	235,684	235,684
Total yield / interest risk sensitivity gap	514,791	23,275	538,066	43,919,233	9,405,610	53,324,843	53,862,909
Cumulative yield / interest risk sensitivity gap	514,791	538,066	1,076,132	44,995,365	54,400,975	107,725,818	107,725,818
	2018						
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	Total
Financial assets	(Rupees in '000)						
Current account with the State Bank of Pakistan*	-	-	-	50,042,724	-	50,042,724	50,042,724
Investments	516,692	-	516,692	4,727	-	4,727	521,419
Employee loans	2,249	26,656	28,905	1,366,307	7,756,911	9,123,218	9,152,123
Advances and deposits	-	-	-	17,818	8,744	26,562	26,562
	518,941	26,656	545,597	51,431,576	7,765,655	59,197,231	59,742,828
Financial liabilities							
Deposits and other liabilities	-	-	-	1,018,844	-	1,018,844	1,018,844
On balance sheet gap	518,941	26,656	545,597	50,412,732	7,765,655	58,178,387	58,723,984
Capital Commitments	-	-	-	142,102	-	142,102	142,102
Off balance sheet gap	-	-	-	142,102	-	142,102	142,102
Total yield / interest risk sensitivity gap	518,941	26,656	545,597	50,270,630	7,765,655	58,036,285	58,581,882
Cumulative yield / interest risk sensitivity gap	518,941	545,597	1,091,194	51,361,824	59,127,479	117,163,764	117,163,764

\*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. The maturity profile of Corporation's financial assets and financial liabilities is given in note 18.4 to these financial statements.

## 19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

## 20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2019	
	Amortised Cost	Total
	----- (Rupees in '000) -----	
<b>Financial assets</b>		
Current account with the State Bank of Pakistan	44,969,274	<b>44,969,274</b>
Investments	517,552	<b>517,552</b>
Employee loans	9,605,805	<b>9,605,805</b>
Advances and deposits	18,294	<b>18,294</b>
	<u>55,110,925</u>	<u><b>55,110,925</b></u>
	2018	
	Amortised Cost	Total
	----- (Rupees in '000) -----	
<b>Financial assets</b>		
Current account with the State Bank of Pakistan	50,042,724	50,042,724
Investments	521,419	521,419
Employee loans	9,152,123	9,152,123
Advances and deposits	26,562	26,562
	<u>59,742,828</u>	<u>59,742,828</u>
	<b>2019</b>	<b>2018</b>

			----- <b>(Rupees in '000)</b> -----
	<b>Financial liabilities - at amortised cost</b>		
	Deposits and other liabilities	<b>1,012,332</b>	1,018,844
<b>21.</b>	<b>DATE OF AUTHORISATION FOR ISSUE</b>		
	These financial statements were authorised for issue on 12 <sup>th</sup> October 2019 by the Board of Directors of the Corporation		
<b>22.</b>	<b>CORRESPONDING FIGURES</b>		
	Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation and comparison. There has been no significant rearrangement or reclassification during the year.		
<b>23.</b>	<b>GENERAL</b>		
	Figures in these financial statements have been rounded off to the nearest thousand rupees.		

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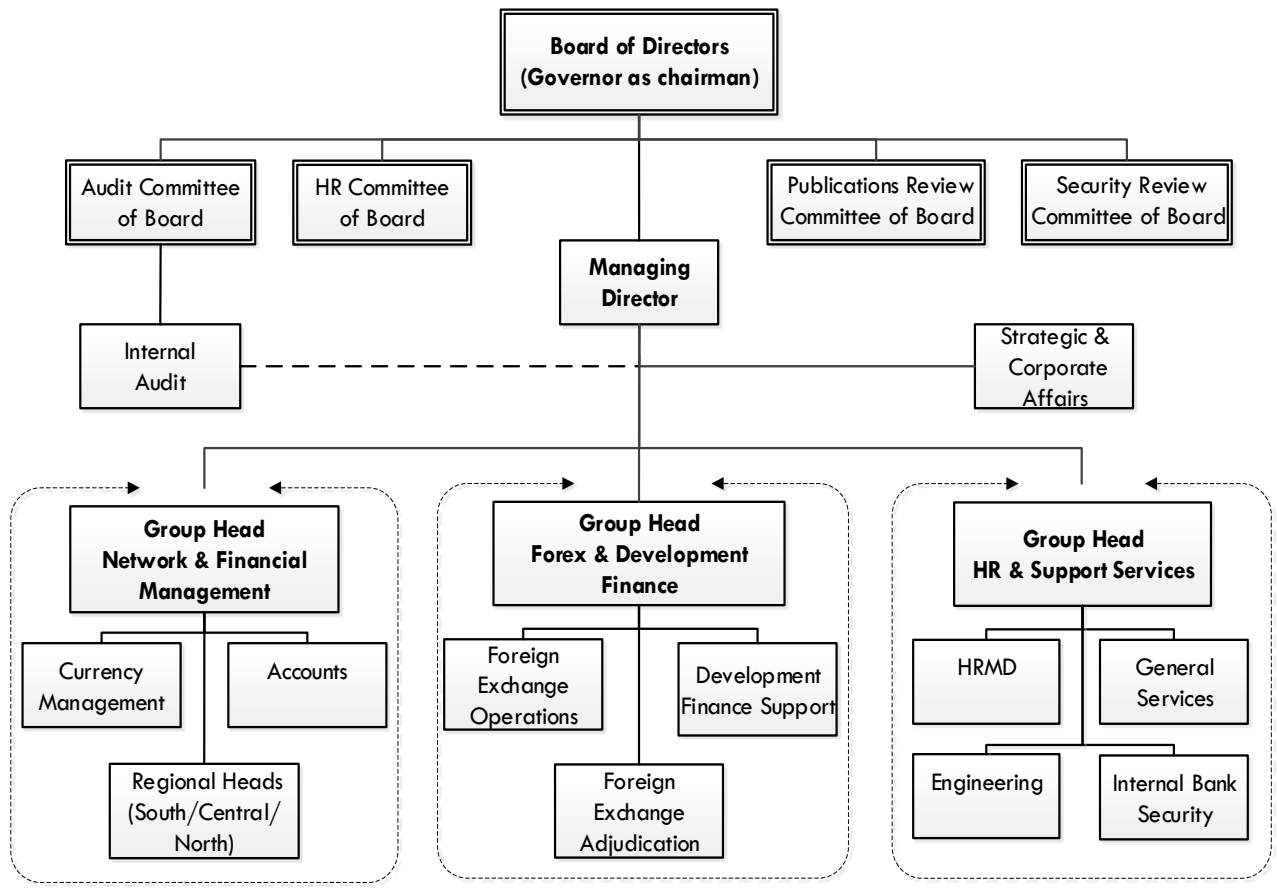
**Muhammad Ashraf Khan**  
Managing Director

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**Shaukat Zaman**  
Group Head

# 11 Organizational Chart

## Organogram of SBP BSC Head Office Karachi





**Organogram of Regions/Field Offices**

