

2019-20

ANNUAL PERFORMANCE REVIEW



SBP BANKING SERVICES CORPORATION



Annual Performance Review

2019-20

Our Vision

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

Our Mission

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



SBP Banking Services Corporation

The Team

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The Team appreciates and expresses its gratitude for the significant support and guidance provided by the Publications Review Committee of the Board, Managing Director, both Group Heads, Directors and officers of SBP BSC as well as counterpart departments of SBP for their contribution.

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

I am pleased to review performance of the SBP BSC for FY20. The Corporation was established to implement policies and interventions of the State Bank of Pakistan and I am happy to note that it has continued to live up to our expectations and its commitment towards excellence.



As I reflect upon SBP BSC's performance, I am glad that during the past year the Corporation accomplished several strategic objectives despite the fact that FY20 was a challenging year in many respects. Before the COVID-19 pandemic, the country was in the early stages of an economic reform program that required stabilization measures, and towards the end of the fiscal year, it was affected by COVID-19 that required implementation of many bold decisions effectively.

The SBP was quick to respond to the economic challenges posed by the pandemic and we took a number of initiatives to minimize its negative fallout on the economy. Our policy interventions focused on safeguarding the financial conditions of both businesses and the households with particular emphasis on the vulnerable strata of the society. First and foremost, supported by a favorable inflation outlook, the SBP's policy rate was rapidly brought down by 6.25 percentage points. In addition, SBP rolled out several quantitative measures for targeted and time-bound liquidity support for firms and households. These included the deferment of principal repayments and loan restructuring, Rozgar Refinance Scheme for firms to pay salaries to their employees in exchange for job protection, relaxations in performance criteria for export-related refinance schemes, and a concessionary refinance facility for long-term investment projects to spur industrialization known as Temporary Economic Refinance Facility (TERF). Similarly, hospitals and health care facilities were offered cheaper loans to gear up for facing the health challenges arising out of the pandemic. Together, these measures – mainly aimed at preventing liquidity problems from turning into solvency problems – represented a large liquidity backstop deployed by the SBP.

In the context of challenges amid COVID-19 pandemic, the support provided by SBP BSC in successful execution of the above noted interventions is praiseworthy. Besides issuance of health and safety guidelines to banks and ensuring circulation of fit and disinfected notes to general public during the pandemic, the Corporation also facilitated the banks in heavy disbursements under Government of Pakistan's "Ehsaas Emergency Cash Program" to mitigate the effects of COVID-19.

SBP BSC has also been working on automation, digitization and Business Process Reengineering initiatives which SBP BSC undertook in its operations particularly for currency management, government banking and foreign exchange. These initiatives have substantially improved operational efficiency and enhanced effectiveness of internal control environment through risk mitigation at SBP BSC. These initiatives also successfully enabled SBP BSC to expand its operational support to SBP in facilitating implementation of SBP's policies and achievement of its strategic objectives.

Here I would also like to acknowledge the support and guidance of SBP BSC's Board of Directors in carrying forward the mandate of the Corporation. I would like to felicitate Managing Director SBP BSC and his team in smooth implementation of State Bank of Pakistan's policies and emergency interventions in very difficult times.

Wishing SBP BSC all the best in its future endeavors.

Dr. Reza Baqir

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Message from Managing Director SBP Banking Services Corporation

It is indeed an honor for me to present Annual Performance Review (APR) of the SBP BSC for FY20. The year under review has been exceptionally difficult in the wake of the challenges posed by COVID-19 pandemic; however, I am pleased to report that the Corporation accepted these challenges with professional dedication and provided full support in the successful implementation of various SBP interventions efficiently.



During these testing times, SBP BSC fulfilled its role and responsibilities effectively. It administered Refinance Scheme for Payment of Wages & Salaries to the workers and employees through Rozgar Scheme to prevent layoffs of employees by business entities. SBP BSC also provided same day credit to banks in lieu of cash received from hospitals & pharmacies and quarantined at bank's branches. It also ensured smooth and uninterrupted currency operations across the country, and maintained circulation of fit, authenticated, and disinfected banknotes to the general public through issuance of fresh notes. Our initiative of automation and digitization came in handy in ensuring that the central bank's efforts to hedge the economy against the fallout of the pandemic are effectively executed.

During the year, the Corporation accelerated the pace of using Alternate Delivery Channels (ADCs) for collection of taxes and achieved a commendable increase in tax collection through this mechanism. In order to streamline payments and facilitate external and internal stakeholders, it enhanced consolidation of payments made to various government accounts and initiated electronic payments directly into bank accounts.

Our journey towards the automation of currency management operations continued unabated. In this respect, expansion of Banknote Processing and Authentication Systems (BPAS) to 9 field offices is expected to be completed by December, 2021 following the planned phase-wise installation. Furthermore, during the year, Banknote Destruction System (BDS) machines were installed at 4 field offices and installation at 3 other field offices is expected to be completed in near future. Together, the above systems will ensure accuracy, standardization, quality of banknotes and HR savings in the high speed processing of banknotes while conforming to health & safety standards.

During FY20, SBP BSC sustained its efforts towards administering development finance initiatives and increasing Financial Inclusion. In this respect, the Corporation imparted financial education to over 254,000 participants under the National Financial Literacy Program (NFLP). Through vigorous efforts, SBP BSC improved female participation and the number of total participants of NFLP trainings as compared to last year, while maintaining a balanced rural-urban mix. I am pleased to share that first time in three years of NFLP, female participation and account conversion targets were not only achieved but were surpassed. Female participation improved from 42% to 57% over the previous year against a target of 50%. NFLP trainings brought about a remarkable increase in the number of Bank and Mobile Wallet accounts opened by participants who attended these sessions. During the year, 217,832 participants opened their accounts (83 % of total trainees) as compared to 122,353 accounts (53 % of total participants) in FY19 against a target of 80%. SBP BSC also reinforced Small and Medium Enterprise (SME) finance through its 'sectoral development' initiative through which field offices examined sectors of regional importance and proposed viable measures for enhancing their access to finance.

In order to foster ease of doing business and bring in greater transparency, SBP BSC introduced electronic case processing in its Foreign Exchange (FE) function by implementing Regulatory Approval System (RAS) through which banks submit all their FE related cases and receive decision letters on those cases electronically, while their customers receive system-generated status updates and reports at their email addresses.

Annual Performance Review of any organization leads one to think about its future direction. I can clearly discern underlying sense of our direction: bringing in greater efficiency, productivity gains and reliability in our systems and procedures. Heading in this direction, we have taken many initiatives of automation, digitization and Business Process Engineering (BPR). These initiatives will go a long way in better currency management, modernizing government banking services, strengthening foreign exchange regime and deepening our outreach for financial inclusion and development finance.

In addition to our efforts towards modernization and productivity gains, we remain committed to compliance of all relevant international standards of AML & CFT, like recommendations of Financial Action Task Force (FATF) and United Nations' (UN) Targeted Financial Sanctions Regime. SBP BSC is in the process of acquiring name screening solutions that would enable us to implement these recommendations effectively.

It is important to underscore the importance of HR in the performance of any organization and SBP BSC is no exception. We place highest premium on quality of our HR to ensure that the aims, objectives and future goals of the organization are implemented smoothly.

I would like to share my profound gratitude for the guidance and support extended by the SBP BSC Board of Directors and the Governor State Bank of Pakistan. I would also like to extend appreciation to my colleagues at the Corporation for their relentless support and efforts towards achieving the organizational objectives. I am certain that my team will endeavor to work with even greater fervor in times to come.

Muhammad Ashraf Khan

Executive Summary

By any account the year 2020 was a different and difficult year. As COVID -19 hit our economy like the rest of the world, SBP BSC strove to implement SBP's initiatives and measures to counter the negative effects of the pandemic.

Nevertheless, challenges presented by the pandemic provided many opportunities for Business Process Reengineering (BPR), automation and digitization. SBP BSC implemented SBP's major COVID-19 related interventions including the Rozgar Scheme, Ehsaas Emergency Cash Program, Refinance Facility for Combatting COVID (RFCC), Temporary Economic Refinance Facility (TERF) etc. in a successful and effective manner, in addition to achieving its business plan and strategic objectives during the year.

In order to facilitate stakeholders, SBP BSC enhanced the scope of Alternate Delivery Channels (ADCs) like internet and mobile banking, ATMs and Over the Counter (OTC) facilities for collection of federal and provincial taxes for Public to Government (P2G) and Business to Government (B2G) transactions. SBP BSC registered significant growth in number of ADC transactions, which increased from 0.46 million in FY19 to 5.26 million in FY20, recording growth of 1,043 percent, whereas collections through ADCs increased from Rs.171 billion to Rs.439 billion. The process of automation of salary and pension payments in various government institutions was also successfully undertaken.

SBP BSC, through its field offices as well as agency network of National Bank of Pakistan (NBP) and Bank of Punjab (BoP), collected revenues and made payments on behalf of federal and provincial governments. The volume of these transactions amounted to 13 million, registering an increase of 38 percent over the preceding year. In addition, as part of National Payment Systems Strategy (NPSS), SBP BSC made a shift away from paper-based payment instruments to Electronic Fund Transfers (EFTs) for payments to vendors, suppliers, and employees of the SBP BSC. The Corporation also minimized cash payments to public through the use of real time direct credits into beneficiary bank and branchless banking accounts, thereby, making substantial improvements in customer service.

During the year, SBP BSC continued transforming its currency management operations from manual to an automated environment to improve its processes as well as to comply with SBP's Currency Management Strategy (CMS). In this respect, contract for deployment of 9 Banknote Processing and Authentication Systems (BPAS) was awarded in October, 2019 and their phased installation is expected to complete by December, 2021. Moreover, during FY 20, the destruction process of banknotes was also automated through installation of 4 Banknote Destruction Systems (BDS) at Lahore, Faisalabad, Peshawar and North Nazimabad offices respectively and these machines are planned to be deployed in three other SBP BSC offices.

SBP BSC also established comprehensive Anti-Money Laundering (AML) and Combating Financing for Terrorism (CFT) framework to mitigate the risks emanating from money laundering and terrorism financing and to ensure compliance with local and international regulations. Various initiatives taken in this respect included training of officers, establishment of a dedicated AML & CFT compliance division at SBP BSC, customer identification and pre-screening for all National Saving Schemes (NSS) products under the United Nations (UN) Targeted Financial Sanctions Regime, and reporting of currency transactions (CTR) and suspicious transactions (STR) to Financial Monitoring Unit (FMU) through 'go AML' portal.

Facilitation to SBP in management of development finance initiatives remained on track in FY20. During the year, SBP BSC monitored agriculture credit disbursement target of Rs. 1,350 billion allocated to 50 Participating Financial Institutions (PFIs). Further, under Financing Facility for Storage of Agricultural Produce (FFSAP) and Islamic Financing Facility for Storage of Agricultural Produce (IFFSAP), SBP BSC extended access to finance amounting to Rs. 1.11 billion to small farmers, suppliers, processors, and distributors through commercial banks. SBP BSC also administered a number of financing facilities, i.e. refinance and credit guarantee schemes for the development of SMEs, women and young entrepreneurs, renewable energy, agriculture, and exporters.

SBP BSC also steered the National Financial Literacy Program (NFLP) in line with SBP's strategic goal to increase Financial Inclusion in the country. Since its initiation in August 2017, the NFLP has imparted financial education to over 600,000 participants. During FY20, financial education was imparted to 254,000 participants through approximately 10,000 classroom sessions and 300 street theatre programs. 70 percent of the participants of the program belonged to rural areas and comprised of a favorable female ratio, which witnessed significant improvement i.e. 57 percent in FY20 compared to 42 percent in FY19. The number of participants who opened a bank or mobile account at the end of the sessions also showed remarkable improvement from 53 percent in FY19 to 83 percent in FY20.

During the year, SBP BSC undertook a number of developmental initiatives for improving its existing operational framework of Foreign Exchange (FE) to facilitate the banking industry. One of the key developments is the successful launch of SBP's Regulatory Approval System (RAS), an online portal to facilitate stakeholders by providing them the facility of submitting FE related cases electronically, updating them regarding status of their cases by generating emails, and offering the facility to search status of their case through SBP's website.

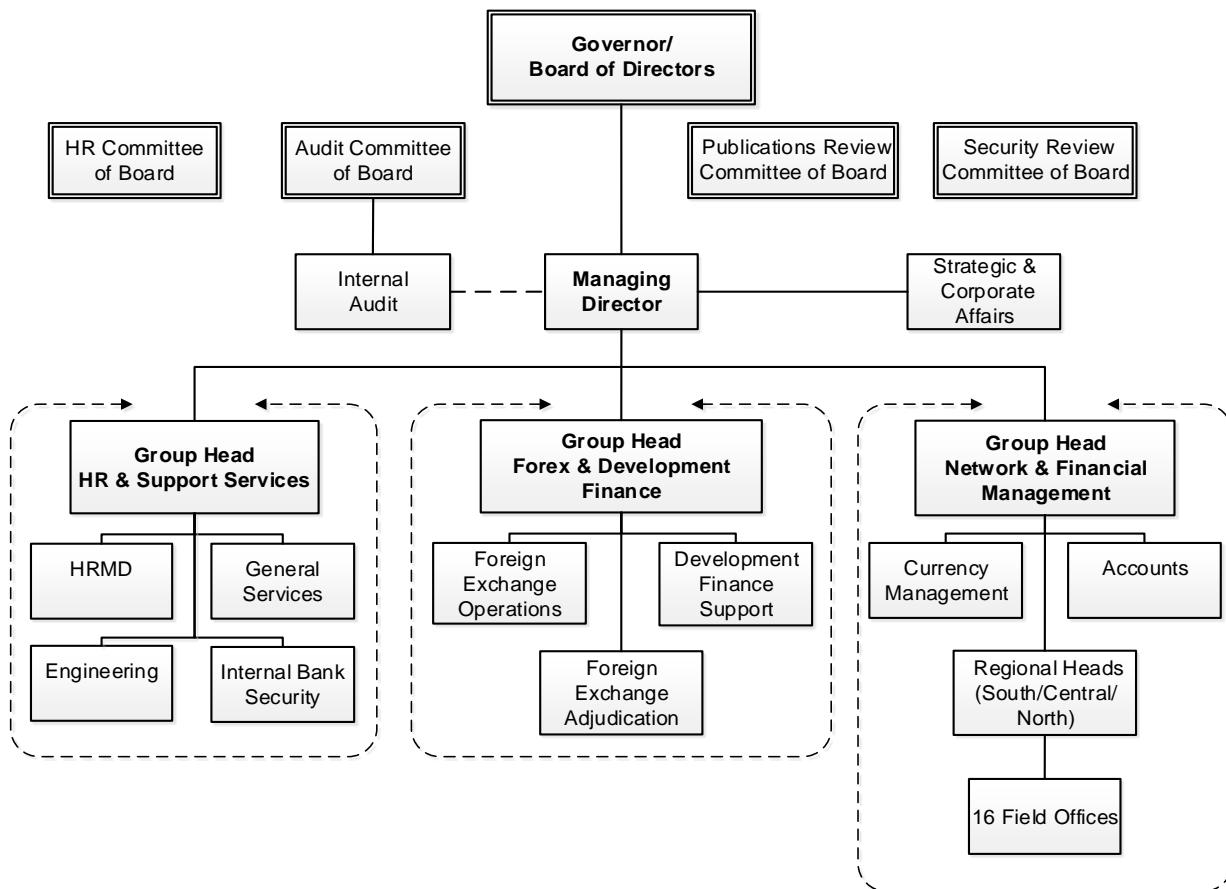
Another major development by the organization in the FE area was the implementation of IMF's BPM-6 (Balance of Payments Manual 6) in coordination with SBP, which enabled electronic reporting of Export Advance Payment (EAP) and discontinuation of manual paper-based submissions. Other significant initiatives of SBP BSC, which are under development include establishment of an 'Online Portal for Government Subsidies on Export' with Ministry of Commerce (MoC) as well as development of an 'Electronic Data Interchange' (EDI) with Pakistan Customs for effective monitoring of trade transactions.

The SBP BSC also adopted a new approach to monitor money laundering and terrorist financing cases. In this regard, scrutiny of inward and outward FX transactions was enhanced and carried out in a broader perspective of money laundering and terrorist financing. SBP BSC also developed a 'Money Laundering Risk Assessment Model' for risk profiling of FE related cases and a 'Name Search Engine' (containing names of approximately 22,700 blacklisted individuals & entities) for name screening.

About State Bank of Pakistan Banking Services Corporation

SBP BSC is a wholly owned subsidiary and operational arm of SBP. Established under the SBP BSC Ordinance 2001, it is mandated to provide banking services to the Federal & Provincial Governments as well as to Financial Institutions. Through its network of 16 field offices across Pakistan, SBP BSC is entrusted with management of currency, SBP's concessional refinance scheme management, facilitating the inter-bank settlement system, sale/purchase of savings instruments of the Government on behalf of Central Directorate of National Savings and to play an active role in expanding the outreach of SBP's development finance schemes and NFLP interventions. Further, it performs operational and monitoring functions related to Foreign Exchange (FE) and also conducts FE adjudication process as per relevant laws and regulations. Besides, HR development SBP BSC also ensures delivery of support services to internal stakeholders and SBP in the areas of procurement, engineering, medical, and internal bank security.

Organogram of SBP BSC (HOK)



Governance Structure

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

The Board of Directors of SBP BSC is comprised of:

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

The members of Board of Directors of SBP BSC include Governor SBP, Federal Secretary, Ministry of Finance (as an ex-officio member), eight non-executive Directors nominated by the Federal Government and Managing Director SBP BSC. Governor SBP acts as the Chairman of the Board. The Directors, at least one from each province, are appointed by the Federal Government. They are eminent professionals from the field of economics, finance, banking and accountancy. Managing Director is the Chief Executive appointed by the SBP as mandated under the SBP BSC Ordinance 2001.

Board of Directors



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

Dr. Reza Baqir is serving as Governor since May 5, 2019. He was appointed as the Governor SBP by the President of Pakistan on May 4, 2019 for a period of three years from the day he assumes the office of the Governor. He assumed his responsibilities on May 5, 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. 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 35 years of experience in Public Administration. He has served the Federal and Provincial governments in various positions. Mr. Baloch holds an MSc in Social Policy and Planning in Developing Countries from London School of Economics, UK. Prior to his present posting, he had been posted as Secretary, Cabinet Division and Chief Secretary, Khyber Pakhtunkhwa. He also remained Federal Secretary, Ministry of National Health Services, Regulation & Coordination, Government of Pakistan. He also had an additional charge of Secretary, Revenue Division from June 2019 to July 7, 2020.



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

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



Mr. Atif R. Bokhari (Member since November 14, 2018; He submitted his resignation from the Board on March 26, 2020)

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 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. Upon appointment as Chairman, Board of Investment (BoI), he resigned from the SBP Board on March 26, 2020.



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

Mr. Azam Faruque is CEO of Cherat Cement Company Limited, a company he has been associated with since 1987. Mr. Faruque is also serving as Director on the Board of Directors of International Industries Limited, Indus Motor Company and Atlas Batteries Limited. He was Chairman Board of Directors of 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.

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



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 career, he served as Secretary Finance in Government of Baluchistan, AJK and as DG Controller General of Accounts besides various other important positions. He served as Secretary Economic Affairs Division. 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.

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 February 1, 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 Arabian 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.

Corporate Secretary

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

Committees of the SBP BSC Board

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

A. Audit Committee

The Committee assists the Board in reviewing SBP BSC's financial statements, auditing, accounting and related reporting processes, assurance on the system of internal controls, governance, business practices, risk management process and standards of conduct established by the management and the Board. It is chaired by Mr. Muhammad Saleem Sethi with Mr. Atif R. Bokhari (*resigned from the SBP BSC Board on March 26, 2020*) and Dr. Tariq Hassan as members.

B. Human Resources Committee

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

C. Publication Review Committee

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

D. Security Review Committee

The Security Review Committee was constituted for carrying out a one-time review of security measures in place at SBP & SBP BSC and to provide feedback to the SBP BSC Board / management on existing

security and safety arrangements. The Committee is also mandated to oversee the smooth implementation of its recommendations and decisions of the Board. It is chaired by Dr. Tariq Hassan with Mr. Ali Jameel as member.

Management Committees

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

Head of Departments (HoDs) Forum:

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



Chief Managers (CMs) Forum:

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

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

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

Secretary of each Committee is responsible for all secretarial work relating to these committees like convening the meetings, making administrative and logistical arrangements, preparing and circulating agenda and minutes of the meetings and ensuring compliance on the decisions of these committees / fora.

Head Office Management



Muhammad Ashraf Khan
Managing Director SBP BSC



Mr. Amjad Manzoor

Group Head
HR & Support Services



Mr. Shaukat Zaman

Group Head
Networks and Financial
Management

Group Head
Foreign Exchange and
Development Finance



**Syed Shehzad Safdar
Zaidi**
Director Human Resource
Management Department



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



Mr. Javaid Iqbal
Director Currency
Management



Mr. Ahsan Kamal
Director Development Finance
Support



Mr. Fazli Hameed
Director Engineering Services



Mr. Asif Mumtaz
Head of Department Internal
Audit



Mr. Irfan Ismail
Head of Department Accounts



Mr. Asad Shah
Director Foreign Exchange
Adjudication



Mr. Tariq Riaz
Head of Department General
Services



**Mr. Khalid Mehmood
Bhutta**
Chief Security Officer



Mr. Shakeel Paracha
Head of Department Foreign
Exchange Operations

SBP BSC Field Office Management



Mr. Qazi Shoaib Ahmad
Regional Head – South



Mr. Javaid Ahmad Bhatti
Regional Head - Central



Sajjad Ali Shah
Regional Head - North



Mr. Sajid Ali Shah
Chief Manager, Karachi



Mr. Javaid Iqbal Marath
Chief Manager, Lahore



Mr. Umar Farooq Minhas
Chief Manager, Islamabad



Mr. Amjad Ali Imran
Chief Manager, Quetta



Mr. Sarfraz Ahmad Nadeem
Chief Manager, Faisalabad



Mr. Muhammad Saleem Khan
Chief Manager, Rawalpindi



Mr. Habib Ur Rehman Hashmi
Chief Manager, North Nazimabad



Mr. Waqas Bajwa
Chief Manager, Multan



Mr. Ishtiaq Ahmed
Chief Manager, Peshawar



Mr. Imtiaz Ahmed
Chief Manager, Hyderabad



Mr. Ansar Iftikhar Butt
Chief Manager, Sialkot



Mr. Muhammad Aftab Alam
Chief Manager, Muzaffarabad



Mr. Maqbool Ahmad Khan
Chief Manager, Sukkur



Mr. Muhammad Waheed Akhtar
Chief Manager, Gujranwala



Mr. Muhammad Tahir Khan
Chief Manager, Dera Ismail Khan



Mr. Najeeb Ahmad Bukhari
Chief Manager, Bahawalpur

Network and Financial Management Group

1. Banking Services to Government and Banks

As per the statutory obligation under SBP BSC Ordinance 2001 and Transferred Undertaking delegated by SBP, SBP BSC provides banking services to Federal and Provincial governments and Financial Institutions. It also provides payment systems support to SBP and maintains accounting and financial records of SBP BSC while aiming at ensuring robust control environment and quality services.

1.1 Overview

SBP BSC provides banking services to Federal and Provincial Governments through its 16 field offices and agency network comprising of National Bank of Pakistan (NBP) and Bank of Punjab (BoP) branches. Further, SBP BSC also provides services of Banker to the Banks and supports functioning of payment systems by monitoring the local clearing houses and settlement of interbank and 1-link transactions.

1.1.1 Banker to the Government

As Banker to the Government, SBP BSC is responsible for opening and maintenance of Government accounts, collection of tax / non-tax revenues and to make payments on behalf of the Governments. It also provides remittances, and safe deposit services to the Governments. Additionally, acting in the advisory capacity to Federal and Provincial Governments, SBP BSC also proposes various improvements in the existing framework of rules, procedures, and systems with the aim to enhance the efficiency and effectiveness of the entire Government Banking function in line with the vision of its parent institution i.e. SBP.

1.1.2 Banker to the Banks

Being banker to the banks, SBP BSC maintains Current and Subsidiary General Ledger Accounts (SGLAs) of all scheduled banks and Non-Banking Financial Institutions (NBFIs). Through these accounts, SBP BSC facilitates banks in maintaining their cash and liquidity reserves (CRR and SLR) as prescribed by SBP in light of monetary policy and risk management objectives and as required under Banking Companies Ordinance, 1962. Additionally, banks are provided low cost remittance services to facilitate adequate availability of cash for their operations across Pakistan.

1.1.3 Payment System Support

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

1.1.4 Financial Services

In line with the provisions of SBP BSC Ordinance 2001 as well as the accounting policies approved by the Board of Directors, SBP BSC ensures proper maintenance of its accounting and financial records. This comprises of maintaining comprehensive records of financial data and preparation of Financial Statements. Additionally, SBP BSC focuses on maintaining a sound internal control environment in order to ensure reliable reporting of its financial position and performance. SBP BSC also assigns due importance to its budgeting processes to ensure judicious consumption of its resources with the implementation of financial controls in achieving its objectives. Moreover, SBP BSC is also implementing an organization-wide framework of Enterprise Risk Management.

1.2 Key Stakeholders

- Federal and Provincial Government Departments
- Banks and NBFIs
- Accountant General Pakistan Revenues (AGPR) & Accountant Generals of provinces (AGP)
- Finance Division (GOP) and Provincial Finance Departments
- Federal and Provincial Revenue Authorities including excise and taxation departments
- Pakistan Railways
- Pakistan Post
- Central Directorate of National Savings
- National Institutional Financial Technologies (NIFT)
- 1-Link

1.3 Key Performance Highlights during the Year

Box 1.1 : Key Performance Highlights during FY20

Promoting Usage of Alternate Delivery Channels (ADCs) for Tax Payments using 1-Link Infrastructure

- SBPBSC, in pursuance of its objective of digitization, supported the SBP and FBR initiative of promoting collection of taxes and duties through ADC/OTC platform by conducting extensive awareness campaign for tax payers. These efforts resulted in an increase of 157% in tax collection through ADCs/ OTC amounting to Rs. 439 billion in FY20 as compared to Rs. 171 billion in FY19 which indicates the successful shift in tax payments from manual to digital mode.
- Manual Payments for tax deductions by commercial banks at SBP BSC counters were completely shifted to ADCs.

Supporting Development of Financial Digital Eco System for Financial Inclusion

- **Digitization of internal payments of SBP BSC**
All Payments to vendors, employees were digitalized and are now being directly credited to beneficiary's account with effect from June 11, 2020.

- **Centralization of Income Tax Refunds**

SBP BSC shared a proposal with FBR to process Income Tax refunds through Central Treasury. The proposal was endorsed by FBR and announced by Federal Government with its budget proposal for FY21 in National Assembly.

- **Improving Organization's Productivity and Efficiency**

- Achieved significant reduction in workload of Banking Divisions at field offices through cheque consolidation.

1.4 Operational Performance

1.4.1 Collection of Government Revenue

SBP BSC provides revenue collection services to Federal and Provincial Governments which includes tax and non-tax revenues. During FY20, the total number of transactions pertaining to the Government

collection (except collections through ADCs) carried out by the SBP BSC field offices was 2.838 million as compared to 4.052 million in the preceding year showing a decrease of 30%. This decrease is primarily attributed to SBP BSC's extensive efforts to increase tax collection through ADCs.

1.4.1.1 Government Revenue Collection through ADC and OTCs

In line with the NPSS, SBP BSC placed an enhanced focus on digitalization of payment systems. For this purpose, one of the key initiatives was enhancing the usage of ADCs and OTCs in Government revenue collections.

SBP BSC broadened the scope of tax collection services by capitalizing on banking industry's IT infrastructure i.e. internet banking, mobile banking and ATMs, as well as commercial banks' branch network, and enabled collection of taxes, through above means, across the entire banking sector. Moreover, it also arranged seminars, awareness sessions, and stakeholder meetings across the country at major cities to create awareness among various segments of taxpayers and to encourage them to use ADCs and OTC services for tax payments submission. For this purpose, primary focus was given to Chambers of Commerce and Industry, traders and trade bodies, tax firms/consultants, and banks. The sessions, which were well received by the participants, eventually resulted in significant increase in usage of ADCs and OTC for tax submission. During the year, ADC collections recorded an annual growth of 157% valuing at Rs. 439 billion in FY20 as compared to Rs. 171 billion collections in FY19.

Moreover a 1,043% rise was witnessed in ADC transactions volume as current year transactions increased to 5.26 million from 0.46 million in previous year.

1.4.1.2 Collection for Federal Board of Revenue

The taxes and duties collected by SBP BSC on behalf of Federal Board of Revenue (FBR) during the year was Rs. 4,100.5 billion. The summary of FBR receipts and payments (refunds) for the last two years is given as under: (See Table 1.2)

Table 1.2: Yearly amount of FBR receipts and payments (refunds) (Rupees in billion)

Tax Type	Receipts		Payments	
	FY 19	FY 20	FY 19	FY 20
Sales Tax	1,461.2	1,656.0	21.30	93.3
Federal Excise	226.1	249.7	0.06	0.4
Customs	730.7	669.2	17.10	12.4
Income Tax	1,450.4	1,525.6	33.20	28.4
Total	3,868.4	4,100.5	71.66	134.5

*Table 1.1: Number of Receipt Transactions for FY19 and FY20 (Office-wise)
(Number of Transactions in '000)*

Field Office	FY19	FY20	% change
Islamabad	486	242	-50%
Karachi	814	535	-34%
Lahore	588	285	-52%
Peshawar	385	352	-14%
Faisalabad	271	190	-30%
Hyderabad	223	184	-18%
Rawalpindi	216	168	-22%
N. Nazimabad	180	137	-24%
Multan	173	137	-21%
Sialkot	145	126	-13%
Quetta	137	121	-11%
Gujranwala	116	90	-23%
Muzaffarabad	113	119	5%
Bahawalpur	84	75	-10%
Sukkur	75	61	-13%
D.I. Khan	46	38	-17%
Total	4,052	2,838	-30%

1.4.2 Making Payments on behalf of Government

SBP BSC also makes payments on behalf of Federal and Provincial Governments, which primarily include salaries, pension, vendor/supplier payments, debt repayments etc. During FY20, the total number of transactions pertaining to the Government payments carried out by SBP BSC was 4,905 million as compared to 4,946 million in FY19 showing a decrease of 0.8%. (See **Table 1.3**)

1.4.3 Collection and Reporting of Zakat

SBP BSC plays an important role in Zakat collection, disbursement, and reporting of its balances to concerned stakeholders. During FY20, the total collection of Zakat was Rs. 7,929 million as compared to Rs. 9,256 million collected during FY19 showing a decrease of 14.3%.

*Table 1.3: Number of Payment Transactions FY19 and FY20 (Office-wise)
(Number of Transactions in '000)*

Field Office	FY19	FY20	% Change
Karachi	1,006	858	-14.7%
Lahore	803	697	-13.2%
Islamabad	496	913	84.2%
Rawalpindi	468	424	-9.3%
Faisalabad	318	282	-11.1%
Hyderabad	304	248	-18.6%
Peshawar	299	259	-13.4%
Multan	252	334	32.4%
N. Nazimabad	251	240	-4.3%
Quetta	159	142	-10.4%
Gujranwala	143	113	-21%
Sialkot	116	99	-14.5%
Sukkur	114	100	-11.7%
Bahawalpur	99	90	-9.1%
Muzaffarabad	68	61	-10.6%
D.I. Khan	51	43	-15.1%
Total	4,946	4,905	-0.8%

1.4.4 Transactions and Balances

Management & reporting of accounts of Federal & Provincial Governments is a core responsibility of SBP BSC. Data pertaining to Government transactions carried out under various accounts is reported to respective stakeholders. The daily position of Federal Government balances is also provided to State Bank.

The year-on-year (YoY) summary of total number of Government transactions reflected an increase of 38% i.e. 13 million in FY20 as compared to 9.43 million in FY19.

The two-year trend of Government transactions processed by SBP BSC is given in **Table 1.4**. Total value of Government's collections and payment disbursement is also shown at **Table 1.5** below.

*Table 1.4: Number of Government Transactions including ADC (yearly trend)
(Number of Transactions in '000)*

Financial Year	Number of Government Transactions
FY20	13,009
FY19	9,426

1.4.5 Elimination of Tax Payment by Commercial Banks at SBP BSC

Commercial banks were depositing tax deducted by them, as a withholding agent, on OTC basis at SBP BSC offices through manual instruments i.e. payment orders. With a view to bring improvement in the process with regards to timely credit in Government accounts as well as facilitation of the withholding agents, SBP BSC shifted these transactions to ADC mechanism through active guidance and follow-up with commercial banks.

Table 1.5: Total value of Government Receipt Collection and payment disbursement by SBP BSC (Rupees in billions)

Year	Receipts	Payments
2018-2019	30,031	32,598
2019-2020	28,894	28,707

1.4.6 Consolidation of Cheques

In order to bring efficiency in Government's payment process, SBP BSC approached the Military Accountant General for consolidation of salary / pension cheques of Controller of Military Accounts (CMA), Controller of Naval Accounts (CNA) and Controller Accounts Air Force (CAA). In this regard, after deliberations, salary cheques of CNA were consolidated and reduced by 82 percent, i.e. from 11,000

to 2,000 cheques. Similarly, number of pension payment instruments of CAAF was reduced by 84 percent i.e. from 500 to 80 cheques. Similar initiatives with other stakeholders are in the works.

1.5 Development Initiatives

1.5.1 Digitization of Internal Payments

Besides digitizing payments for its external stakeholders, SBP BSC also revamped its internal payment infrastructure as well to augment digital financial eco-system and financial inclusion. As a result, paper based payment instruments (cheques / payment orders) used for making payments to vendors, suppliers, and employees of SBP BSC were discontinued and replaced with digital payment instruments for direct credit into bank accounts of the recipients.

Similarly, digitalization of pension payments to ex-employees of SBP and SBP BSC is also underway. By 1st September 2020, all pensioners will be paid their pension directly into their bank accounts.

1.5.2 Centralization of Income Tax Refunds

In pursuance of Bank's overarching objective of ensuring data integrity, transparency and efficiency in public payments, a proposal was floated to FBR in January, 2020 to digitalize Income Tax Refund payments in line with Sales Tax Refunds. The proposal envisaged transfer of said payments through a centralized treasury directly in the bank accounts of taxpayers. This proposal was endorsed by FBR and was approved by the Federal Government as part of its Budget Proposals for FY 2020-21. Earlier, all Regional Tax Offices (RTOs) of FBR were issuing income tax refunds through physical instruments i.e. vouchers/ cheques drawn on SBP BSC and NBP.

1.6 Future Outlook

SBP BSC will continue to improve its customer service and operational delivery standards for its stakeholders especially in discharging its duties as banker to Government and banks. To further minimize its manual processes, SBP BSC will adopt modern IT systems and conduct Business Process Reengineering (BPR) in consultation with relevant stakeholders. Moreover, SBP will be fully supported in its goal for developing and operating an efficient, effective and secure national payment system in the country.

In addition, SBP BSC is in the process of completing various development projects including centralization of Government accounts (CNA, CAAF, and Provincial Food), digitization of remittance facility for Government Departments and implementation of Knowledge Management (KM) System. Further, SBP BSC plans to closely work with all stakeholders for enhancing scope of ADCs for collection of Provincial Government revenues by using the Micro Payment Gateway platform.

2. Currency Management

Currency Management is one of the core operational areas of SBP BSC as it deals with distribution, management and withdrawal of banknotes and coins. Further, SBP BSC is also entrusted with operational management of Prize Bonds and government savings certificates. These functions are undertaken through 16 SBP BSC field offices and 224 NBP Chest branches.

2.1 Overview

SBP BSC strives to ensure implementation of policies and guidelines relating to currency management and government savings schemes issued by the State Bank of Pakistan (SBP) and Central Directorate of National Savings (CDNS) respectively. The primary objective of Currency Management is to undertake end-to-end management and distribution of good quality notes in circulation while timely ensuring disposal of soiled banknotes. SBP BSC endeavors to match its operational management and currency processing / 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.

Accordingly, SBP BSC endeavors to:

- i. Build and maintain public confidence in the currency by preserving its value and integrity by ensuring adequate availability of good quality banknotes in the market to meet the demand for currency, which is essential for the proper functioning of the economy.
- ii. Arrange for timely printing and effective stock management of currency notes and prize bonds in coordination with Pakistan Security Printing Corporation (PSPC).
- iii. Ensure swift withdrawal of soiled notes from the market and their subsequent destruction with enhanced control environment, so as to improve the overall quality of the notes in circulation.
- iv. Issue comprehensive instructions to its 16 field offices for effective implementation of SBP's Currency Management Strategy (CMS) through rigorous on-site examinations and monitoring by Cash Monitoring Hubs (CMHs) across Pakistan.
- v. Propose new developments to align existing currency management function with international best practices.
- vi. Ensure effective operational management of Government Savings Schemes and winning prize arrangements for National and Premium Prize Bonds in coordination with CDNS.
- vii. Strengthen Anti Money Laundering and Combatting Financing of Terrorism (AML & CFT) regime in government savings operations performed by SBP BSC.

2.2 Key Stakeholders

- | | |
|---|--|
| <ul style="list-style-type: none">• Commercial Banks• Pakistan Railways• Central Directorate of National Savings• Pakistan Security Printing Corporation | <ul style="list-style-type: none">• Pakistan Mint• Law Enforcement Agencies (LEAs)• State Bank of Pakistan |
|---|--|

2.3 Key Performance Highlights during the Year

Box 2.1: Key Performance Highlights during FY20

Currency Operations

- Ensured uninterrupted supply of fresh notes across the country, with 29 % YoY increase in total issuance of fresh notes in FY20
- Conducted 1,203 cash monitoring examination by CMHs during FY20 showing an increase of 17% from previous year
- Formed centralized destruction hub of lower denomination banknotes at SBP BSC North Nazimabad

Efforts to Combat COVID-19 Pandemic

- Released fresh notes worth Rs. 89 billion to commercial banks for Ehsaas Emergency Cash Program announced by the Federal Government
- Facilitated supply of disinfected re-issuable notes to banks in replacement of quarantined cash
- Balance sheet relief of Rs.9.1 billion for banks with regards to quarantined cash
- Managed uninterrupted supply of fresh notes while ensuring minimum public dealing
- Issued detailed guidelines to SBP BSC offices and banks to curb the spread of COVID-19 pandemic

Government Savings Operations

- Successful withdrawal of Rs.236 billion worth of Rs.40,000 bearer National Prize Bonds (NPBs), amounting to 99% of the outstanding value in circulation
- Payment of prize money and face value on National Prize Bonds through direct credit and Branchless Banking Accounts
- Claim of prize money from commercial banks for facilitation of general public

AML & CFT

- Implementation of system-based screening of proscribed / designated persons in July 2019 to comply with Anti Money Laundering 2010 Act, the National Counter Terrorism Authority (NACTA) guidelines and United Nations Security Council Resolution (NSCRS) & Financial Action Task Force (FATF) Recommendation R-6.

2.4 Operational Performance

2.4.1 Circulation of Banknotes

Pakistan is a highly cash centric economy with presence of informal markets / businesses that mostly rely on cash. Hence, the value of Notes-in-Circulation (NIC) has been increasing, despite increase in usage of online and point-of-sale banking and alternative payment channels. During FY20, NIC witnessed an annual growth of 22.0%, with the NIC as a percentage of Gross Domestic Product (GDP) standing at 15.6%, highlighting the cash centrality of Pakistan's economy. The increasing trend of cash has been more pronounced in FY20, with COVID-19 pandemic being the major driver. (**Table: 2.1**).

Table 2.1: Comparison of GDP and NIC in FY20

Rupees in millions

Year	Nominal GDP	Notes in Circulation (NIC)	NIC as % of GDP	NIC Change over previous year
FY19	37,972,310	5,319,186	14.0%	13.4%
FY20	41,726,683	6,492,272	15.6%	22.0%

2.4.2 Currency Management

SBP BSC's main focus area is ensuring availability of good quality banknotes across the country. The distribution of fresh notes is ensured through active and timely coordination with SBP BSC's 16 field offices, NBP Chest and commercial banks' branches across the country. The issuance of fresh notes in FY20 exhibited significant deviation from previous years' trends (**Table: 2.2 below**).

Table 2.2: YoY Comparison of Fresh Notes Issuance

(No. and value of pieces in millions)

Year	Lower Denomination (Up to Rs. 100)				Higher Denomination (Rs. 500 & Above)			
	Pieces	% Increase	Value	% Increase	Pieces	% Increase	Value	% Increase
FY19	2,473	5.6	77,301	7.5	880	5.1	1,226,150	8.7
FY20²	1,667	-32.6	64,014	-17.2	1,175	33.5	1,611,167	31.4

²T-24 Currency Data as of 30 June 2020

The primary reasons for the record increase in demand of higher denomination fresh banknotes were the increased issuance emanating from mandatory requirements for quarantine of infected cash, general public's reliance on cash as the preferred medium of exchange during emergencies, ATM feeding through disinfected/fresh cash and cash payments for government's Ehsaas Program. The same is elucidated in detail in Section 2.4.7.

Meanwhile, in view of the lockdown across the country and the risk of non-compliance of social distancing measures at commercial bank branches, the 8877 service (for issuance of fresh notes to the public), remained suspended for both Eid occasions. Resultantly, the issuance of lower denomination banknotes in FY20 saw a YoY decline of 33%.

The Currency in Circulation (CIC) saw an increase of 6% YoY in terms of pieces. Meanwhile destruction of banknotes saw a decline of 25% on YoY basis, due to halting / suspension of examination and destruction at SBP BSC offices as a COVID-19 pandemic measure. (**See Figure: 2.1**)

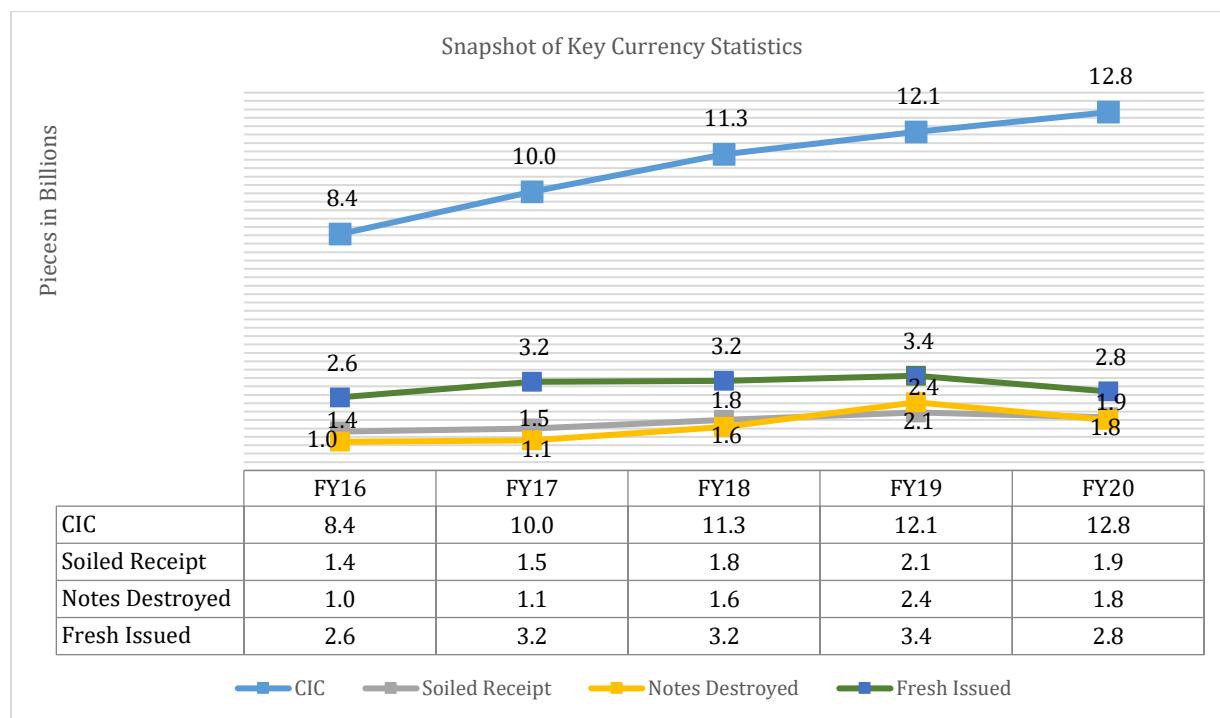


Figure 2.1: Snapshot of Key Currency Statistics

2.4.2.1 Counterfeit reporting / confiscation

The increase in counterfeits reported by banks to SBP BSC offices and the lower number of counterfeits detected during examination at SBP BSC's end reflects an improvement in banking system's counterfeit detection capability with mandatory machine processing and stronger reporting mechanism at commercial banks. Meanwhile, the lower number of counterfeits detected in examination can also be attributed to suspension of examination procedures in March 2020, due to COVID-19 pandemic.

2.4.3 Monitoring of Currency Operations

2.4.3.1 Cash Monitoring of Commercial Banks

Currency Management Strategy (CMS) was rolled out in 2015, primarily to ensure the circulation of good quality banknotes and curb the increasing spread of counterfeits in the economy. To materialize the objectives of CMS, it was of utmost importance that the banks meticulously comply with the CMS guidelines. For the purpose, three (03) dedicated Cash Monitoring Hubs (CMHs) were established at Karachi, Lahore and Rawalpindi in October 2018.

During FY20, the monitoring of commercial banks was further strengthened after the implementation of CMS on countrywide basis. Despite the spread of COVID-19 pandemic in the second half of the financial year and lockdowns across the country, the CMHs undertook 1,203 examinations of commercial bank branches, including 208 Cash Processing Centers, 189 Cash Feeding Branches, 530 Standalone and 276 Linked branches. In comparison, 1,027 examinations of commercial bank branches were conducted in the previous year. Cumulative penalties imposed amounted to Rs. 21.59 million during FY20 as compared to Rs. 40.5 million in FY19, highlighting implementation of a stronger compliance regime by commercial banks and effectiveness of the cash monitoring exercise.

The CMH teams also conducted over 45 classroom and online awareness sessions regarding machine sorting, banknote packing and allied instructions under CMS for capacity building of the cash officers at commercial banks to further improve their compliance.

2.4.3.2 NBP Chest Examination

During FY20, on-site examination of NBP Chest branches was decided to be carried out twice in a financial year. The first cycle was timely completed whereby all 224 chest branches were visited with rigorous follow-up to get the irregularities/ observations rectified. A comprehensive report highlighting the non-compliant aspects and higher risk NBP branches was put up to the senior management. The second cycle was initiated in second half of FY20 with focus on high-risk branches, which were carrying balances in excess of their holding capacities. However, due to the outbreak of COVID-19 pandemic, the same could not be completed.

2.4.4 Automation of Currency Management Operations

In pursuance of SBP's strategic goal to maintain good quality banknotes in circulation as well as to ensure effective implementation of CMS, SBP BSC is gradually transforming its currency operations from manual to automated environment in line with international standards. During FY 20, 4 Banknote Disintegration Systems (BDS) were installed at Lahore, Faisalabad, Peshawar and North Nazimabad offices. The installed machines allow for bulk shredding of banknotes, thereby, making the process more efficient and secure, while also improving health & safety standards. These facilities will be added in three more SBP BSC offices during the next year.

Further, a contract for 9 Banknote Processing and Authentication Systems (BPAS) was awarded in October, 2019 and their phased installation is expected to be completed by December, 2021. BPAS machines are capable of high-speed processing³, authentication and online destruction of banknotes providing 100

³ Approx.30 banknotes per second

percent counterfeit detection, processing accuracy, standardization, and significant HR savings in comparison to its manual counterpart.

It is expected that with the successful installation of 11 BPAS, SBP BSC's yearly capacity for processing and online shredding of higher denomination (Rs. 500 & above) banknotes will increase to 1.4 billion pieces. In addition, with the implementation of BDS, SBP BSC will be able to disintegrate more than 2.5 billion pieces of lower denomination (Rs.100 & below) banknotes on a yearly basis in a safe and secure manner.

SBP BSC has also installed 141 Countertop & Desktop Banknote Sorting Machines (CNS & DNS) across 16 field offices for counter operations and as a stopgap arrangement for back end processing until the installation of BPAS & BDS machines across SBP BSC offices is completed. These machines are playing a pivotal role in ensuring that only good quality and machine-authenticated banknotes are issued over counters at SBP BSC's field offices.

2.4.5 Government Savings Schemes

The management of Government Savings Schemes on behalf of Central Directorate of National Savings (CDNS) is another major area of SBP BSC's operations. SBP BSC is focused on modernizing the operations of these schemes to achieve operational efficiency in terms of time, cost and HR needs. A brief overview of various Government Savings Schemes is given as under:

2.4.5.1 National Prize Bonds

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. Winning prize bonds are drawn by special children in presence of draw committee and general public attending the draw ceremonies.

The sale and encashment of these bonds is carried out by all SBP BSC field offices, authorized commercial bank branches and National Savings Centers across Pakistan. The draws of NPBs are held at nine (09) SBP BSC offices on quarterly basis as per schedule announced by the CDNS at the start of each year.

During FY20, decreasing trend in sale of prize bond and prize money payment was witnessed as various functions, such as sale of Government Savings Schemes was temporarily suspended as a precautionary measure to combat the COVID-19 pandemic.

Additionally, withdrawal of Rs.40,000/- denomination NPBs from circulation was another major factor for the decreasing trend. As on June 30, 2020, prize bonds of Rs.40,000/- denomination worth Rs. 236 billion (99%) have been successfully converted / encashed. Data pertaining to National Prize Bonds is elaborated in (**Table: 2.3**)

<i>Table 2.3: Total NPB Sale & Encashment at SBP BSC field offices</i>									<i>(Rupees in millions)</i>
Denom	FY19				FY20				Outstanding Value Held by Public FY2020
	Sale	Encash- ment	Prize Money Payment	Net Sale	Sale	Encash- ment	Prize Money Payment	Net Sale for FY20	
100	1,256	307	841	949	467	370	731	97	10,286
200	2,600	1,021	2,426	1,579	953	1,205	1,746	(251)	29,340
750	14,514	2,733	8,957	11,781	6,492	2,596	7,356	3,896	107,344
1,500	15,763	3,308	9,468	12,455	18,054	2,971	9,009	15,083	123,248

7,500	23,568	4,784	9,063	18,784	6,609	2,784	8,611	3,825	106,457
15,000	34,704	12,669	15,489	22,035	13,009	16,575	13,969	(3,566)	172,554
25,000	27,501	13,476	14,894	14,025	15,824	12,404	13,760	3,420	164,048
40,000	34,446	76,417	25,858	(41,971)	-	191,403	9,018	(191,403)	2,398
Total	154,352	114,715	86,996	39,637	61,409	230,307	64,200	(168,899)	715,676

During last year, commercial banks were entrusted with the responsibility to accept prize money claims from general public on the behalf of SBP BSC to make the claim process convenient and efficient. The cited facility has received overwhelming response from general public as a total of 36,511 prize money claims valuing Rs.3.7 billion were received through commercial banks.

Moreover, in order to encourage low-income individuals to use digital payment modes and enhance financial inclusion, the SBP BSC has also introduced facility for payment of prize money and face value on National Prize Bonds (NPBs) through Branchless Banking Accounts.

Additionally, initiatives taken by SBP BSC such as direct credit of prize money and face value not only significantly improved the efficiency of public debt operations managed by SBP BSC, but also reduced dependency on cash.

2.4.5.2 Premium Prize Bonds (PPBs)

Premium Prize Bonds (Registered) Scheme is another savings scheme that is managed by SBP BSC. The PPBs are registered in nature and issued against Computerized National Identity Cards (CNIC) of the investor. This scheme is a step towards increasing documentation of economy as maintaining a bank account is mandatory for investment in this scheme. The Premium Bonds are eligible for both prize money (as admissible in the scheme) and profit payment as per rates notified by Government of Pakistan. The bi-annual profit and prize money (if any) are credited directly into the bank accounts of the investor and do not require personal visit for collection of profit or prize money. PPBs can also be purchased from six authorized commercial banks i.e. NBP, HBL, UBL, MCB, ABL & BAFL. A snapshot of the business conducted for Rs. 40,000/- PPBs in FY20 is given in chart below.

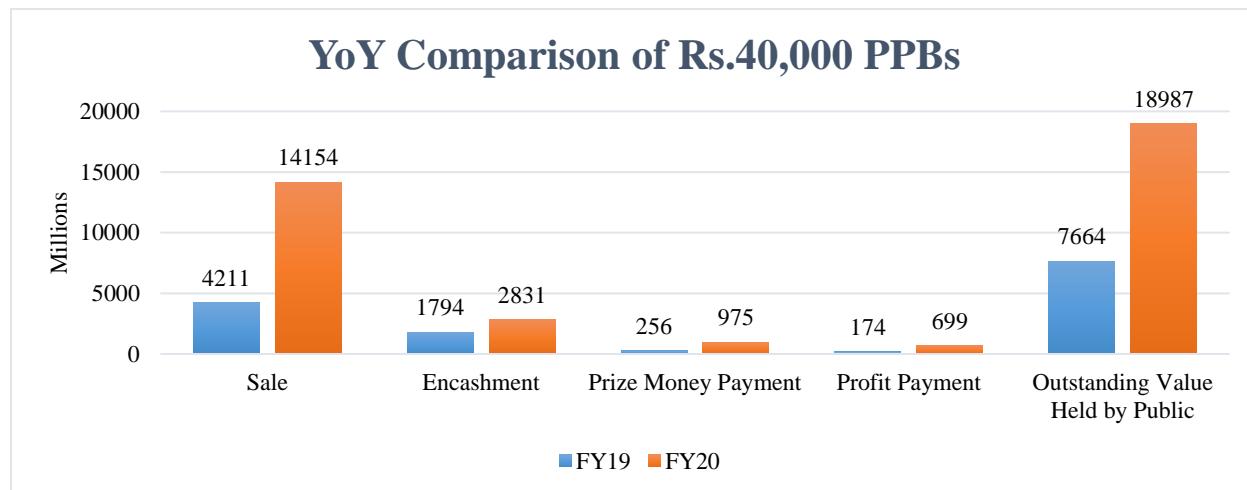


Figure 2.2: Total PPB Sale & Encashment at SBP BSC field offices

2.4.5.3 Special and Defence Savings Certificates

Special Savings Certificates (SSC) Scheme, introduced by CDNS in 1990, has mainly focused on lower to middle-income investors who are in need of a 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. 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.

During FY 20, the net outstanding investment grew 11% YoY against SSC and 16% YoY against DSC to Rs. 51.5 billion and Rs. 67.2 billion respectively.

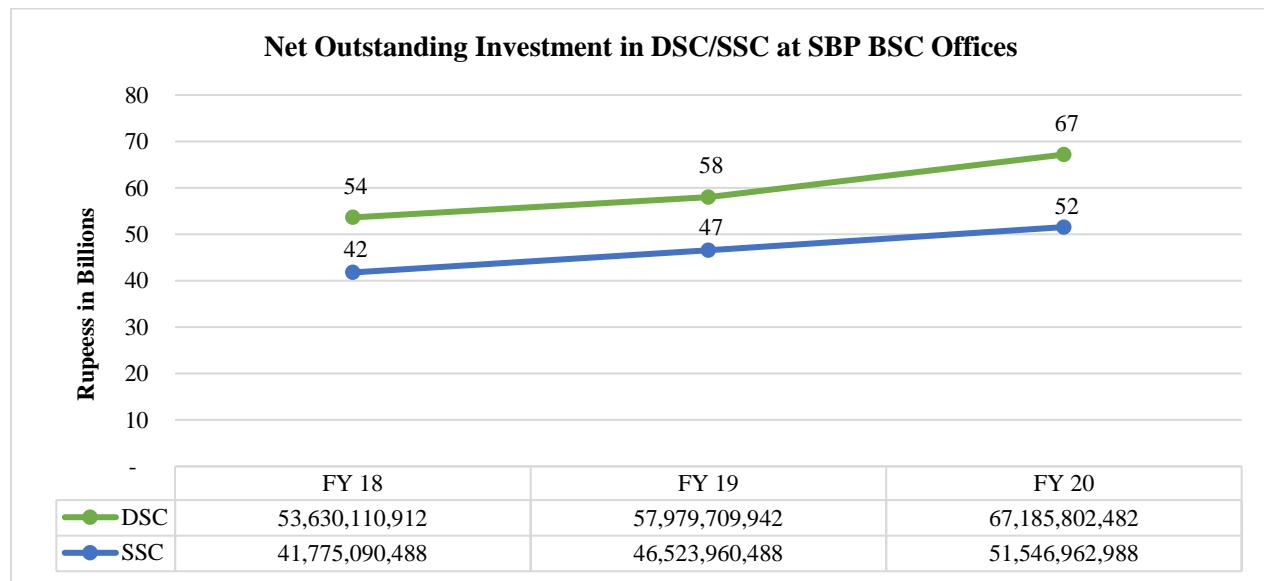


Figure 2.3: Net Outstanding Investment in SSC/DSC at SBP BSC Offices

2.4.6 Anti-Money Laundering and Combating the Financing of Terrorism (AML & CFT) Compliance

In order to ensure mitigation of risks emanating from the menace of money laundering and terrorism financing, and ensure compliance of prevailing rules & regulations, SBP BSC has put in place a comprehensive AML & CFT regime in its dealing with external stakeholders. For this purpose, a dedicated AML & CFT Compliance Division was established in SBP BSC that is tasked with implementation of requisite actions stemming from the local and international regulatory requirements.

During the year, significant progress was made in strengthening AML & CFT regime in Government Savings Scheme operations. A comprehensive AML & CFT framework has been implemented in the operations of SBP BSC. The compliance regime includes customer identification, pre-screening under the United Nations (UN) Targeted Financial Sanctions Regime such as UNSCR 1267, 1373 etc., record keeping guidelines and reporting Currency Transaction Reports (CTR) and Suspicious Transaction Reports (STR) to the Financial Monitoring Unit (FMU).

In compliance with the NACTA guidelines and UNSCR & FATF Recommendation R-6, Sanction Screening has been implemented in core-banking system (T-24 system) for screening of proscribed / designated persons. All walk-in-customers are screened based on their unique national identification number i.e. CNIC / NTN which is checked against various sanctions lists issued by UN, NACTA, etc.

Additionally, all SBP BSC offices and HOK have been registered as reporting entities on FMU's goAML portal, whereby STRs and CTRs are being reported by concerned offices/departments to FMU.

Furthermore, SBP BSC is also currently working on enhancing the scope of the in-house developed Transaction Monitoring System (TMS) to assist concerned SBP BSC officials in monitoring the transactions and generation of alerts on the basis of pre-defined red flag indicators. On the customer identification / verification front, additional checks are being introduced to ensure a more robust and comprehensive system-based Know Your Customer (KYC) module. This shall enable SBP BSC to timely update customer profiles and carry out ongoing Customer Due Diligence (CDD) / Enhanced Due Diligence (EDD) exercise.

In addition to the above, SBP BSC is also taking the lead in procurement of an automated off-the-shelf targeted financial sanction screening solution, in line with international best practices

2.4.7 Initiatives to Tackle Spread of COVID-19 Pandemic

2.4.7.1 Policy Initiatives

As a socially responsible institution, SBP BSC took numerous special measures in response to the COVID-19 pandemic. In order to ensure business continuity in times of uncertainty, only critical currency management functions were carried out to ensure uninterrupted provision of services to government departments and commercial banks, whereas direct public dealing was minimized. In line with guidelines issued by Government of Pakistan (GoP) & World health Organization (WHO), detailed advisories were issued to SBP BSC Offices, commercial banks and Cash-in-Transit companies regarding:

- Maintaining social distancing protocols.
- Use of face masks, disposable gloves, disinfectants, hand sanitizers, etc.
- Ensuring minimal staff deployment.
- Screening for symptoms of all persons entering bank premises including employees, public, and representatives of banks/ Cash in Transit (CIT) companies.

Further, following initiatives were taken as a precautionary measure to curb community spread of COVID-19 pandemic through banknotes:

- Mandatory quarantine of banknotes received over counters by commercial banks and BSC Offices. Alternatively, disinfection of banknotes by commercial banks through Pakistan Council of Scientific and Industrial Research (PCSIR) certified cabinets/ machines.
- Feeding of ATMs with either fresh or ATM-fit re-issuable notes taken from BSC Offices.
- Disinfection and sealing of banknotes received from hospitals, clinics and pharmacies in commercial banks' own vaults. A total of Rs. 10.8 billion worth of same day balance sheet relief was provided to commercial banks by SBP BSC to facilitate banks in meeting these requirements.
- Suspension of 0.12% service charge on deposit of re-issuable banknotes to SBP BSC offices until June 2021, to facilitate banks in fulfilling quarantine requirements.

- Mandatory standardized packing with shrink-wrapping of bundles vide Banknote Packing Instructions for all denominations, as compared to previous instructions which only mandated the same for Rs. 100 and above denominations.
- Uninterrupted receipt of soiled banknotes from commercial banks and NBP Chests.

As is often observed during times of uncertainty, general public's reliance on cash remained high. As such, the currency in circulation witnessed a significant increase during the corona virus pandemic. The CIC increased by Rs. 635 billion (10.8%) from March 24 to June 30, 2020, compared to same period last year. Moreover, due to the quarantine requirements, commercial banks increasingly relied on SBP BSC offices for depositing their excess cash and withdrawing fresh/ re-issuable banknotes. Re-issuable balances deposited by commercial banks during the same period increased by 95 million pieces (194%) and Rs. 122 billion in value (168%). Similarly, payments of fresh & re-issuable balances to commercial banks increased by 37 million pieces (65%) and Rs. 290 billion in value (46%) compared to same period last year.

2.4.7.2 Ehsaas Cash Program

Complete support was also extended to ensure seamless cash disbursements through the Ehsaas Emergency Cash Program and cash payments of Rs. 89 billion were made to commercial banks specifically for the purpose.

2.5 Development Initiatives

2.5.1 Government Savings Operations

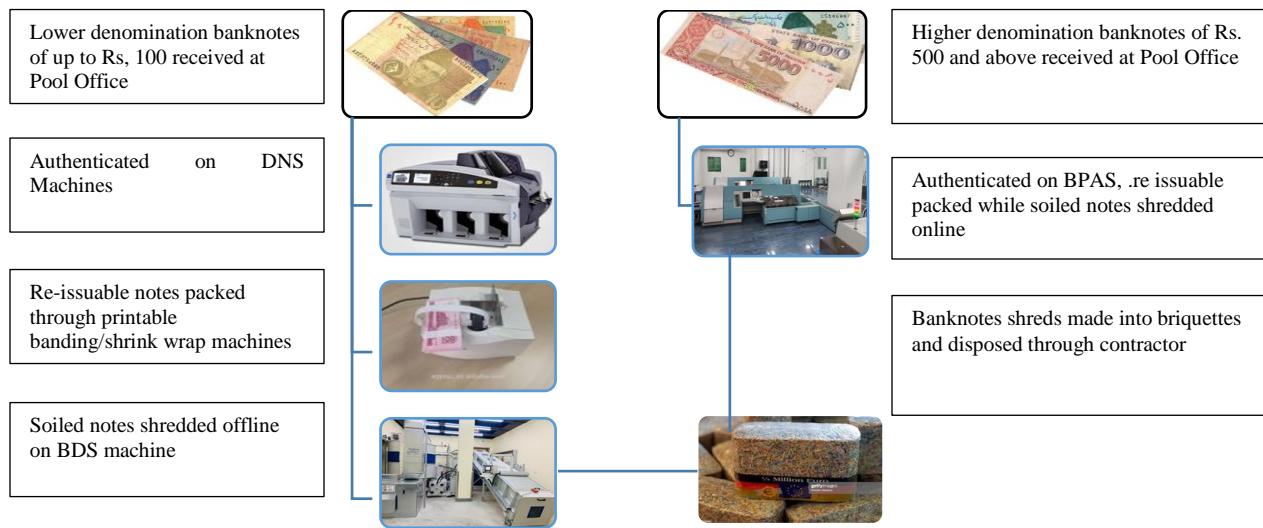
- Introduction of facility for payment of prize money and face value on NPBs through direct credit and Branchless Banking Accounts.
- Introduction of facility to claim prize money from commercial banks for facilitation of general public.

2.5.2 AML & CFT

Implementation of system-based screening of proscribed / designated persons in July 2019 to comply with AML Act 2010, ATA 1997, NACTA guidelines, UNSCRS and FATF Recommendations.

2.5.3 Currency Automation

- Award of Contract for supply of 09 Banknote Processing & Authentications Systems (BPAS) to be installed at SBP BSC Lahore, Faisalabad, Peshawar, Rawalpindi, Multan & Quetta in 2 years via phased implementation
- Successful installation of 04 Banknote Destruction Systems (BDS) at SBP BSC Lahore, Faisalabad, Peshawar & North Nazimabad
- Initiation of procurement of 03 additional BDS to be installed at SBP BSC Rawalpindi, Multan & Quetta



As per SBP's New Banknote Processing Model, the examination & destruction of banknotes shall be centralized to 7 Pool Offices, which shall be equipped with BPAS & BDS. The remaining SBP BSC offices, called linked offices shall only responsible for receipt of balances from banks and NBP chests.

Figure 2.4: New Centralized Banknote Processing Model

2.6 Future Outlook

SBP BSC remains committed to evolve, upgrade and automate its currency and government savings functions in line with the changing business dynamics, country's economic situation and availability of technological solutions. To ensure inclusive, comprehensive and effective progress in these business areas, a detailed BPR exercise was carried out through review and analysis of end-to-end business processes. Opportunities for improvement identified in aforementioned exercise are expected to bring remarkable improvements in our processes besides accruing benefits for all our stakeholders. Some of these projects include:

- Modernization of banknote processing and elimination of manual banknote processing
- Automation/consolidation of currency accounting
- Establishment of model examination hall for consolidated banknote processing and destruction of lower denomination banknotes of entire south region (except Quetta)
- Restructuring of counter and vault operations
- Upgrading currency logistics and storage infrastructure at SBP BSC
- Implementation of banknote inventory management system, with the ability to bring all the disparate stakeholders in the cash lifecycle onto a single shared platform, and with real time track and trace capability

Additionally, SBP BSC will continue to pursue initiatives to further strengthening its AML, CFT and CPF regime in line with the applicable laws and international standards. Initiatives in this area includes;

- Real time screening of proscribed persons through state of the art sanctions screening solutions.
- Customer identification through reliable sources.
- Improved and effective documentation.
- Systematic monitoring and review of business transactions.

- Risk assessments and improving internal controls.
- Digitization drive to effectively transition from bearer instruments to registered instruments.
- Developing and introducing digital/scrip-less products with the aims to enhance of customer convenience, process improvement and international best practices while contributing to the national cause of improving AML, CFT paradigm of the country.

All such projects would not only leave a positive impact on existing structure of operations but will also enhance SBP BSC's capacity to monitor financial transactions, customer due diligence and STR reporting.

Foreign Exchange and Development Finance Support Group

3. Development Finance

With the aim of developing and promoting an inclusive financial system in the country, State Bank of Pakistan Banking Services Corporation (SBP BSC), utilizing its geographic presence and outreach in the country, carries out numerous operational functions to augment the strategic objectives of SBP in the area of Development Finance.

3.1 Overview

SBP BSC performs a vital role in implementation and monitoring of State Bank of Pakistan's policies and various development finance initiatives, including refinance & credit guarantee schemes as well as promoting financial literacy and financial inclusion. SBP BSC provides a platform for implementing SBP's initiatives at grassroots level by utilizing its strategic presence across the country. It collaborates with regional stakeholders, shares relevant information with the market, and collects feedback from them. SBP BSC carries out capacity building of various stakeholders to foster development of linkages between underserved segment of the population and financial institutions.

Throughout the year, SBP BSC played its role in the implementation of various development finance related programs and initiatives. Moreover, during the outbreak of COVID-19 pandemic, SBP BSC played a proactive role in implementation of policy measures taken by SBP, especially with regards to the refinance scheme for payment of wages and salaries to prevent layoffs (Rozgar Scheme) and risk sharing facility scheme.

3.2 Key Stakeholders

- Commercial / Microfinance Banks
- Chambers of Commerce & Agriculture
- Trade Bodies
- Ministry of Food, Agriculture and Livestock
- Ministry of Commerce & Industry
- Agriculture Department
- Small and Medium Enterprises Development Authority
- Chambers of Commerce & Agriculture
- Trade Bodies
- Local Governments, District Coordination Officers, Nazims
- Revenue Department
- Farmers' Associations & Community Organizations
- Agricultural Credit & Microfinance Department, SBP
- Infrastructure, Housing & SME Finance Department, SBP
- Federal Bureau of Statistics, Pakistan
- Small and Medium Enterprises (SMEs)
- Agriculture Research Council
- Pakistan Livestock and Dairy Development Board
- Non-Governmental Organizations
- Rural Support Programs, Pakistan Microfinance Network, Rural Support Programs Network
- Targeted groups from underserved areas

3.3 Performance Highlights during the Year

Box 3.1: Key performance Highlights during FY20

- Signed Memorandums of Understanding with important stakeholders for collaboration under National Financial Literacy Program (NFLP) to make the program self-sustainable after donor funded period
- Development of 28 commercial bankers and 32 SBP BSC officers as master trainers and 350 field trainers through 20 Training of Trainers (TOT) programs
- Re-filming of NFLP Street Theater programs in Urdu and other regional languages with better quality and script for improved learning outcomes
- Held recognition ceremonies to acknowledge exemplary performance of banks' field trainers
- Increased incentive amount to NFLP partner institutions from Rs. 230 to Rs. 400 per participant
- Sensitized bank's Presidents on implementation issues faced by SBP BSC and bank's own trainers
- Held frequent meetings and feedback sessions between SBP BSC's senior management with internal and external stakeholders for enhanced coordination and effective implementation of NFLP

Financing to Priority Sectors

- Conducted 70 focus group meetings to address concerns of bankers with regard to priority sectors and to encourage their engagement with these sectors
- Conducted 297 awareness programs, 75 capacity-building sessions, 46 fairs, conferences, exhibitions, and meetings with Academia in order to improve access to finance with respect to priority sectors
- **Agriculture Financing:** SBP BSC monitored performance of Participating Financial Institutions (PFIs) with respect to Rs. 1,350 billion indicative target set by SBP for the agriculture sector
- **Export Refinance Scheme (EFS):** Rs. 1,096.24 billion was disbursed during FY20, out of which Rs. 831.26 billion was disbursed under EFS and Rs. 264.99 billion under Islamic EFS
- **Refinance Schemes for Renewable Energy (FSRE):** Rs. 7.69 billion was disbursed under Financing Scheme for Renewable Energy (FSRE) and Islamic Financing Facility for Renewable Energy (IFRE)
- **Financing Facilities for Storage of Agricultural Produce (FFSAP):** Rs. 1.11 billion was disbursed under FFSAP and Islamic FFSAP
- **Long Term Financing Facilities for Exporters (LTFF):** Rs. 70.20 billion was disbursed under LTFF & Islamic LTFF
- **Prime Minister Youth Business Loan Scheme:** Subsidy and credit loss subsidy amounting to Rs. 1.742 billion processed for FY20
- **SME Financing:** More than 700 loans worth Rs. 1.828 billion were re-financed under various SBP scheme.

3.4 Operational Performance

3.4.1 National Financial Literacy Program

The National Financial Literacy Program (NFLP) is a key initiative of SBP introduced in 2017 across 158 districts of the country with the objective of increasing financial literacy and access to financial services.

During NFLP's third year of its rollout, SBP BSC continued the implementation and monitoring of the 5-year NFLP in collaboration with commercial / microfinance banks and other partner institutions including Non-Governmental Organizations (NGOs), Microfinance Institutions (MFIs) and Rural Support Programs (RSPs).

NFLP Program Features

NFLP Classroom Sessions

NFLP Classroom Sessions are interactive educational sessions encouraging two way participation for imparting financial education. NFLP handbooks are also distributed among beneficiaries which cover all major topics on day-to-day financial affairs of common household.

To make course content easily understandable, narrative stories are used and participants are engaged in various activities including learning assessment quizzes, interactive question answer sessions etc. These sessions facilitate beneficiaries in opening of zero level branchless banking and ‘Asaan’ Accounts.

NFLP Street Theatres

Video dramas in Urdu and regional languages are displayed to audience for imparting general awareness about financial services at grass root level. Account opening exercise is also initiated after end of session.

Figure 3.1: NFLP Classroom and Street Theaters

Since the inception of the NFLP program in 2017, more than 600,000 participants have been engaged through over 23,500 classroom sessions and 300 street theatre programs whereby almost 61% of overall program target has been achieved.

During FY20, the implementation of the NFLP remained resilient despite the outbreak of COVID-19 pandemic and met all the milestones for the year. In this respect, 9,946 classroom sessions were conducted against the targeted 9,040 classroom sessions which were attended by 254,000 participants against a target for 226,000 beneficiaries. Performance on sub-targets was also observed to be on mark and to have improved over the previous year. 70 percent of the sessions were conducted in rural areas as per the program’s target. Female participation was observed to have improved from 42% to 57% over the previous year. Most significantly, account conversion ratio i.e. the number of participants who opened an account at the end of a session showed improvement from 53 percent in FY19 to 83 percent in FY20.

3.4.2 Monitoring of Capacity Building Programs Designed for Branchless Banking Agents

SBP BSC performed on-site monitoring and evaluation of the capacity building programs for branchless banking agents conducted by participating banks. This activity was conducted in view of the important role that branchless banking agents play as the first point of contact between un-banked and under-banked segments of society and the formal banking system. During the year, SBP BSC carried out on-site monitoring of more than 80 capacity-building sessions for branchless banking agents conducted by the participating banks, each attended by approximately 25 participants. Additionally, with a view to gauge effectiveness of the trainings, SBP BSC conducted more than 100 surprise visits at business locations of branchless banking agents.

3.4.3 Agriculture Finance

During the year, Participating Financial Institutions (PFIs) disbursed Rs. 1,215 billion, with credit expansion of approximately 3.5% as compared to Rs. 1,174 billion in the corresponding period of previous year. To attain these targets, SBP BSC offices conducted regular meetings with banks’ regional agriculture credit teams throughout the year, and pushed those banks which were lagging behind.

3.4.4 SME Finance

In its role to facilitate implementation and monitoring of SBP's refinance and credit guarantee schemes, SBP BSC, under SBP's Policy for promotion of Small and Medium Enterprises (SME) Finance, monitored the conduct of more than 200 awareness sessions for SMEs during FY20. SBP's refinance and credit guarantee schemes for SMEs aim to provide low cost financing to the segment. Several of these sessions were conducted specifically on Islamic versions of SBP schemes for SMEs. SBP's refinance and credit guarantee schemes for SMEs aim to provide low cost financing to the segment. In this regard, more than 700 loans were refinanced with an amount of Rs. 1.828 billion up to June 30, 2020.

3.4.5 Islamic Finance

SBP BSC assisted SBP in reviewing the progress of initiatives undertaken for promotion of Islamic Banking and gauging the performance of pertinent regional Islamic Banking Institutions (IBIs). In this respect, findings from the review were discussed with the IBIs and Islamic Bank Subsidiaries of conventional banks during Focus Group Meetings (FGMs). During the year, 14 FGMs were organized by SBP BSC.

In order to capitalize on the catalytic role that local religious scholars can play in creating awareness of Islamic Banking amongst the masses, SBP BSC initiated a series of workshops on Islamic Banking for local Mufti / Ulema (religious scholars) with the objective of promoting Islamic Banking and Finance besides addressing any misconceptions associated with the function. During the year, numerous sessions were arranged for 600 participating Ulema and Mufti. In addition, a Review Paper, formulated on the basis of discussions held during FGMs, was shared with SBP that contained action items, suggestions, and recommendations. Subsequently, based on the suggestions of FGMs, SBP BSC offices expanded the scope of the workshops to also include local Mufti & Ulema who belonged from all schools of thought. Moreover, banks were also advised to regularly train their existing Islamic Banking resource persons as well as impart necessary training on Islamic Banking operations to fresh recruits before assigning Islamic Banking activities to them.

3.4.6 Housing Finance

During FY20, SBP BSC supervised the conduct of 16 FGMs for the housing finance sector and subsequently formulated half yearly review paper on the basis of discussions held and shared the same with SBP. Moreover, SBP BSC also conducted meetings on Islamic housing finance and proposed revisions to SBP in its Low Cost Housing Scheme for Special Segments in light of the feedback received from IBIs and Development Finance Institutions (DFIs). As a result of SBP BSC's efforts and active coordination, 15 banks started product development on Low Cost Housing Scheme for Special Segments under Islamic home financing category.

3.4.7 Management of Refinance Schemes

In order to cater to specific financing needs of borrowers, SBP BSC diligently managed and supported various Refinance Schemes and credit facilities introduced by SBP from time to time, such as, 'long-term financing for installation of equipment' and 'financing to meet short-term liquidity requirements'. Moreover, during FY20, SBP BSC also facilitated SBP which initiated a number of conventional and Shariah-compliant financing facilities to combat short-term and long term economic repercussions arising out of the COVID-19 pandemic.

3.4.7.1 Export Finance Scheme

Export Finance Scheme (EFS) - the most prominent among all refinance schemes of SBP - was introduced in 1973 with the objective to boost country's value-added exports by providing access to low-cost funds to exporters for meeting 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 operational 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 FY20, SBP BSC disbursed a total of Rs. 1,096.24 billion under the Export Refinance Schemes of SBP, out of which Rs. 40.44 billion were disbursed to SME exporters.

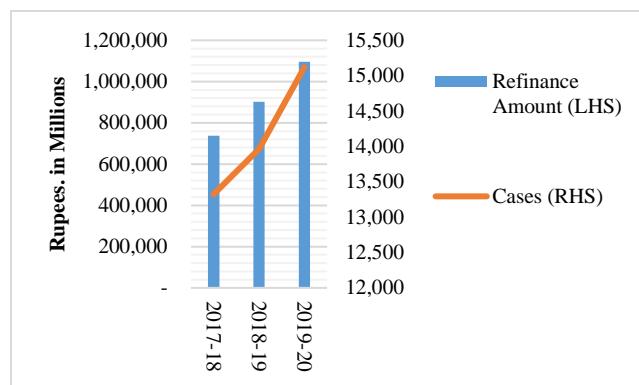


Figure 3.2: Trend of Financing under EFS

To ensure that banks and exporters availing the facility are strictly complying with SBP's instructions and that these funds are being utilized for value-added export purposes, SBP BSC conducted the on-site compliance verification of 13,324 loans, with total refinance of Rs. 737.6 billion that was disbursed to 25 banks during FY20.

As a result of various violations of instructions of the EFS/ IERS observed during On-Site Verification Visits (OSV), SBP BSC imposed penalties amounting to Rs. 12.98 million on banks.

3.4.7.2 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 FY20, Rs. 70.20 billion were disbursed through banks under LTFF & ILTFF as compared to Rs. 57.20 billion last year, reflecting an increase of 22.72% (Figure 3.3).

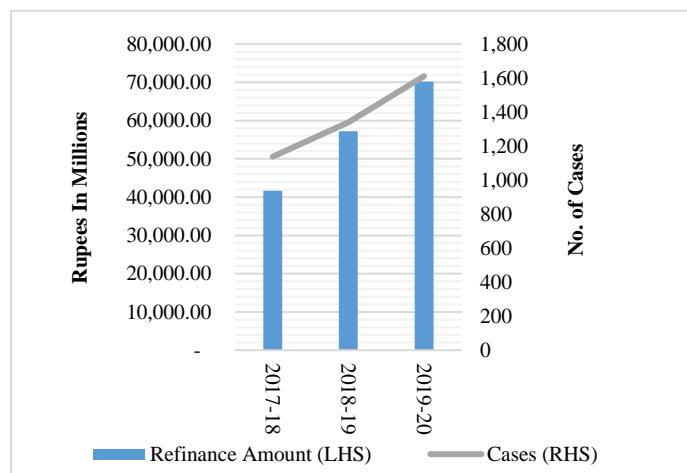


Figure 3.3: Trend of Financing under LTFF

3.4.7.3 Refinance and Credit Guarantee Scheme for Women Entrepreneurs.

During the year, 18 banks were allocated disbursement limits of Rs. 2.495 billion under the Refinance and Credit Guarantee Scheme for Women Entrepreneurs. As of 30th June, 2020, 579 women borrowers availed the scheme. Further, SBP BSC carried out capacity-building sessions for regional bankers to enhance the awareness and address the operational issues of the scheme raised by banks. As an incremental approach, the initiative was rolled out through 5 selected SBP BSC offices (Sukkur, Quetta, Faisalabad, Bahawalpur, and Peshawar) and four selected banks (Habib Bank Limited, Bank Al Falah Limited, Allied Bank Limited and Bank Al Habib Limited). During FY20, 569 bankers were trained through 16 sessions.

In addition, a follow up exercise was conducted every two months with regional bankers to communicate the emphasis laid down on the subject scheme and obtain their feedback on dissemination and its utilization in their region. This exercise helped encourage the banks to put in the required efforts at the grassroots level to enhance the scheme's utilization.

3.4.7.4 Refinance and Credit Guarantee Scheme for Rice Husking Mills in Sind

This facility was launched by SBP in 2013 to facilitate modernization and upgradation of rice-husking mills in Sindh. Under the scheme, Sindh Enterprise Development Fund (SEDF), in collaboration with SBP, offers interest subsidy on the use of funds to the rice-husking mills along with credit risk sharing facility of 30% to lending banks. Eleven banks were allocated limit of Rs. 890 million for FY20 under this facility. Utilization of the scheme on 30th June 2020 stood at 6.9%, with outstanding amount of Rs. 61.3 million for 9 borrowers. Further, in order to promote awareness and utilization of the scheme, banks were advised to conduct field visits to rice mills in the districts falling under the jurisdiction of SBP BSC Hyderabad. A total of 99 visits were conducted. The exercise enhanced awareness of the facility among potential borrowers and in some cases; the banks were also able to create leads for future reference.

3.4.7.5 Financing Facility for Storage of Agricultural Produce

SBP launched Financing Facility for Storage of Agricultural Produce (FFSAP) and Islamic Financing Facility for Storage of Agricultural Produce (IFFSAP) with a view to develop the agricultural produce marketing, enhance storage capacity and encourage private-sector to establish silos, warehouses and cold storages. During FY20, SBP BSC offices disbursed Rs 1.11 billion through banks under both these schemes.

3.4.7.6 Financing Scheme for Renewable Energy

With a view to meet the growing electricity demand and to promote renewable energy projects (i.e. solar, wind, hydro, biogas, bio-fuels, bagasse cogeneration, and geothermal as fuel) in the country, SBP BSC has been providing long-term financing under Financing Scheme for Renewable Energy (FSRE) and Islamic Financing Facility for Renewable Energy (IFRE). During FY20, disbursement of finance through banks under FSRE & IFRE increased to Rs 7.69 billion as compared to Rs. 1.52 billion last year, reflecting an increase of 405.92%.

3.4.7.7 Refinance Scheme for Modernization of SMEs

The scheme was introduced to provide SME borrowers with refinance facility 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 in 2009 reached Rs.1.11 billion on 30th June 2020 against Rs. 0.66 billion on 30th June 2019. 19 banks were allocated limits of Rs. 8.225 billion under the Scheme and limit utilization by banks on their outstanding financing stood at 13.51% (as of 30th June 2020).

3.4.7.8 Prime Minister Youth Business Loan Program

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 FY20, twelve banks submitted 88,535 transactions of subsidy claims under PMYBL scheme. After

processing, subsidy and credit loss subsidy amounting to Rs. 1.742 billion was forwarded to Finance Division, GoP for arranging payments to concerned banks for Q1-Q4 FY20.

3.4.7.9 Prime Minister Youth Entrepreneurship Scheme

The Government of Pakistan (GoP) announced Prime Minister's Youth Entrepreneurship Scheme (PMYES) - also called Prime Minister's Kamyab Jawan Program - in 2019 to promote entrepreneurship and reduce poverty in the country. Under the program, loans are to be provided for up to 8 years with a maximum grace period of 1 year. These loans are segregated into 3 tiers and are to be provided by commercial, Islamic and SME banks. With a view to enable reporting by banks in line with the parameters of PMYES, SBP BSC in coordination with SBP has developed an online Data Acquisition Portal (DAP) based mechanism. This will enable swift and accurate reporting of subsidy and loss claims to Ministry of Finance.

3.4.7.10 Refinance Scheme for Payment of Wages & Salaries to the Workers and Employees of Business Concerns

Under this scheme, as well as its Islamic version, financing was provided to businesses during COVID-19 pandemic for payment of wages and salaries to their workers and employees & thereby avoid layoffs. The borrowers availing this facility undertook not to lay off their employees at least during three months from the date of first disbursement except in case of any disciplinary action. Loans are repayable after December 2020, in eight equal quarterly installments. During FY20, Rs. 37.39 billion were disbursed through banks under these schemes. Apart from disbursement of refinance amount under the scheme, SBP BSC established a facilitation and monitoring mechanism under the lead of Chief Managers of field offices for awareness creation of the schemes among business community and also helped a number of complainants in resolving their issues with banks in availing financing under the scheme.

3.4.7.11 Refinance Facility for Combating COVID-19

During the year, Refinance Facility for Combating COVID-19 (RFCC) and Islamic Refinance Facility for Combating COVID-19 (IRFCC) were introduced as time-bound emergency support for hospitals & medical centers by providing refinance facility to develop capacity for treatment of infected patients of COVID-19. Later, the scope of the financing facility was extended to cover setting up and expansion of the existing hospitals to enable them to provide health-care to patients other than those suffering from COVID-19. SBP BSC disbursed Rs. 0.87 billion through banks under these schemes.

3.4.8 Improving Access to Finance for Marginalized and Collateral Deficient Segments

Credit Guarantee Schemes were launched by SBP with the funding support of the UK's Department for International Development (DFID) for lending to marginalized and collateral-deficient segments by providing an opportunity to financial institutions to share their credit risk. During FY20, 3,768 loans worth Rs. 3.239 billion were processed under Credit Guarantee Scheme for Small & Rural Enterprises (CGS-SRE) and up to 60% guarantees were issued to microfinance and commercial banks. Under Credit Guarantee Scheme for Small & Marginalized Farmers (CGS-SMF), 26,896 loans were processed during FY20 against lending of Rs. 1.888 billion.

An analysis of the data, since inception of CGS-SRE till June 2020, shows that 47,158 guarantees were issued against lending of Rs. 39.97 billion to 24 PFIs. Moreover, the loans were granted to 50 different sectors of borrowers from 109 districts of the country. Fresh borrowers constituted 86% of the total borrowers while the composition of rural to urban sanctioned loans was 54% and 46% respectively. Further, the share of loans given to farmers, SMEs and microenterprises was 58%, 15% and 27% respectively. (**Figure 3.4**)

3.4.9 Line of Credit Facility

Line of Credit (LoC) facility was introduced in 2018 to provide long-term finance to microfinance banks and non-banking financial institutions for onward lending to microfinance borrowers including micro-enterprises. The funding has been designed to enhance financial inclusion by easing the liquidity constraints of micro lending institutions through a sustainable and market based credit strategy. During FY20, SBP BSC disbursed Rs. 45 million to PFIs under this facility.

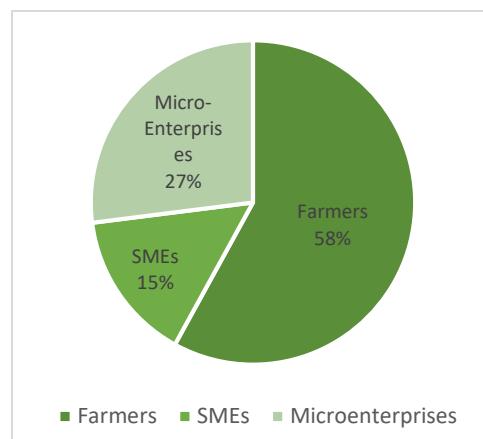


Figure 3.4: Borrower-Type under CGS-SRE

3.5 Developmental Initiatives

3.5.1 Impact evaluation of National Financial Literacy Program

In FY20 a pilot survey was conducted to assess the impact of the program in imparting financial literacy to the participants as well as to gather feedback for improvement of program implementation over the remaining course of two years. Recommendations have been proposed to SBP for improvement of the program and for commencing a full-length survey at a later stage.

3.5.2 Development of an online course on Agri-Financing and Islamic Banking for e-Learning Portal of SBP BSC.

Detailed course on ‘Agriculture Finance’ and ‘Islamic Banking and Finance’ was developed and uploaded on Learning Activities Management System, the e-learning portal of SBP BSC. The course contains presentations and supplementary reading material to facilitate learners along with a quiz to test understanding of key concepts.

3.5.3 “Sector of the Year” – Sectoral interventions by SBP BSC

SBP BSC initiated a major sectoral intervention under its “Sector of the Year” development initiative to identify and address credit demand and supply related issues faced by various sectors of the economy and to enhance awareness of available financing options amongst potential borrowers. Each SBP BSC office worked on a selected sector of regional importance through a structured plan with the aim to increase banks’ financing to the selected sector. Under the initiative, the offices held various meetings with demand and supply side stakeholders, collected regional data from the banks, arranged trainings/orientation to the banks’ staff, and facilitated the credit application process of the interested businesses/firms who participated in BSC Offices’ SME Clinic programs. In a final outcome, each office developed formal reports on their sector of the year, covering all aspects of sectoral study and recommending policy and market intervention for increasing access to credit in these sectors. SBP BSC is sharing these recommendations with Development Finance Group, SBP for their review in the context of policy & intervention improvements.

Under the initiative, BSC Karachi team facilitated credit application of 3 borrowers for renewable energy loans. Financing of Rs. 85.9 million to one customer has already been disbursed whereas two other applications are under process. BSC Peshawar office working on Marble & Granite Industry, achieved various success milestones. The team successfully convinced Board of Revenue KP to charge 0.25% of the financing amount in bank mortgage cases instead of 3.5%. In the SME clinic held at BSC Peshawar office for Marble and Granite SMEs, the banks received 32 loan applications in which 22 loans were approved amounting to Rs. 347 million. The SME clinics at BSC Hyderabad office helped to increase financing to rice husking sector to Rs. 90 million from Rs. 30 million in the previous year. Hosiery sector in Faisalabad region saw a credit growth of Rs. 1,657 million and reached to Rs. 21.047 billion this year. For hand/machine made female clothing, BSC Bahawalpur office facilitated financing of up to Rs. 17.9 million to 16 borrowers. BSC DI Khan office facilitated disbursement of Rs. 6 million to date growers by Bank of Khyber (BoK) and Bank Al Habib Ltd. Further, the cases of Rs. 5 million of date growers are under process at BoK. This reflects only the initial momentum, and BSC regional teams will continue their follow up efforts to upscale credit growth in these sectors.

The table below gives complete list of sectors covered by SBP BSC offices during the year:

Table 3.1: Sector of the Year at Each Office

S.N.	SBP BSC Office	Sector
1	Bahawalpur	Hand/ Machine-made clothing for females (embroidery, block printing, chikankari, stone work etc.)
2	D.I Khan	Dates Processing
3	Faisalabad	Hosiery
4	Gujranwala	Cutlery
5	Hyderabad	Bangles
6	Islamabad	Tourism
7	Karachi	Horticulture
8	Lahore	Information Technology
9	Multan	Textile, APBUMA, Power Looms
10	Muzaffarabad	Tourism
11	North Nazimabad	Ready Made Garments
12	Peshawar	Marble/ Granite Quarrying/ Processing
13	Quetta	Dairy Development and Poultry Farming/ Goat farming
14	Rawalpindi	Furniture
15	Sialkot	Surgical Instruments
16	Sukkur	Dates

3.5.4 Review of Practices Adopted Internationally for Promoting Financing to Women

This review covered secondary research on the subject, included an overview of the local efforts being carried out for promoting financing to women, as well as recommended suggestions that may be explored by SBP/ SBP BSC for facilitating financing to women in the country.

3.6 Future Outlook

SBP BSC will continue to be a proactive partner to SBP in the implementation of its policies and various development finance initiatives for improving the overall development finance outlook in the country.

Since the NFLP will enter into its fourth year in FY21, SBP BSC will focus towards ensuring sustainability of the program and exploring alternative and non-conventional methods for promotion of financial literacy. Moreover, SBP BSC will continue its role in imparting financial literacy post COVID-19 pandemic phase while ensuring compliance with preventive SOPs during NFLP activities. Moreover, a pilot study for evaluating the status of accounts opened through NFLP would be undertaken to provide recommendations for increasing usage and activity of such accounts.

Furthermore, given the positive impact of the ‘Sector of the Year’ initiative during FY20, the same approach will be continued for the next year with special focus towards promotion of Islamic Banking through creating awareness among stakeholders, i.e., general public, officers of SBP BSC, banks, and provincial government departments/ officers. SBP BSC also aims to develop regional profiles in the areas of Islamic Banking and SME to provide a holistic view of the sectors’ statistics across the country. Furthermore, SBP BSC will aim to increase its interaction and coordination with provincial government departments for bringing improvements in the Housing sector.

SBP BSC will also strive to continue its ongoing ambitious initiative to evaluate feasibility of delegating extended roles under Export Finance Scheme to participating banks. This will involve development of a SBP BSC-hosted portal interfaced / integrated with banks that will greatly enhance efficiency and turnaround time. The project will also allow SBP BSC to effectively monitor the banks’ activities under refinance facilities. The scope of the project will be extended to cover all the refinance schemes.

4. Foreign Exchange Operations

SBP BSC is mandated to perform operational work relating to Foreign Exchange under the jurisdiction of Foreign Exchange Regulation Act (FERA), Foreign Exchange Manual and instructions of Exchange Policy Department (EPD) of SBP, with the aim of safeguarding the country's foreign exchange reserves as well as facilitation of stakeholders through efficiency initiatives.

4.1 Overview

As per section 15 (3) (e) (IV) of State Bank of Pakistan Banking Services Corporation (SBP BSC) Ordinance, 2001, the operational work relating to foreign exchange is primarily entrusted to SBP BSC. The Corporation performs its role to safeguard timely repatriation of export proceeds, approve foreign exchange payments as per applicable regulations, and implement Government subsidy schemes in accordance with applicable Statutory Regulatory Orders (SROs). SBP BSC is also responsible to initiate legal actions against delinquent exporters who fail to repatriate export proceeds. Further, it also monitors trade related transactions and levies penalties against regulatory violations under section 23K of Foreign Exchange Regulations Act, 1947 in coordination with SBP.

SBP BSC also verifies exporter's performance required for eligibility under Export Finance Scheme - Part II, facilitates the export of currencies other than US Dollars and import of US Dollars through the joint booths of SBP and Pakistan Customs established at airports of Rawalpindi, Lahore, Peshawar and Karachi. It also coordinates with Pakistan Customs, Federal Investigation Agency (FIA), National Accountability Bureau (NAB), Honorable Courts, etc. to ensure protection of the country's foreign exchange.

4.2 Key Stakeholders

- Government of Pakistan (GoP) through various ministries
- Government departments and armed forces.
- Importers & Exporters
- Exchange companies (EC)
- Shipping agencies, Freight forwarders
- Banks / Authorized dealers (ADs)
- Foreign Exchange Adjudication (FEA) Courts
- Exchange Policy Department, SBP

4.3 Key Performance Highlights during the Year

Box 4.1: Key Performance Highlights during FY20

- Successfully launched State Bank of Pakistan's online Regulatory Approval System (RAS) under KM Project
- Enforced repatriation of overdue export proceeds amounting to USD 928.7 million without adjudication as compared to USD 841.5 million in FY19
- Disbursed Rs. 54.7 billion under Government's Textile and Non-Textile subsidy schemes
- Processed 93,574 instances of violations under Section 23K of the FERA 1947 resulting in penalty of Rs. 153.02 million on 15 banks
- Approved 12,908 cases of commercial, private and trade related remittances
- Verified 684,147 entries under EE/EF Statements in FY20 as compared to 706,978 in FY19 using excel based in-house model
- Filed first Suspicious Transaction Report (STR) on detection of over-invoicing in import of solar panels amounting to USD 111 million during off-site monitoring
- Identified and referred 376 fake export cases worth USD 5.23 million to Customs Adjudication
- Recovered penalties of Rs. 55.181 million from non-performing exporters against sugar export quota allocations
- Facilitated Implementation of export module of IMF's Balance of Payment Manual (BPM)-6
- Successfully defended 27 appeals in Foreign Exchange Regulation Appellate Board (FERAB) without hiring external legal counsel
- Arranged number of training programs for Authorized Dealers (ADs) and FEOD officers

4.4 Operational Performance

4.4.1 Management of Government Schemes

SBP BSC plays a key role in implementation of all Government subsidy schemes such as Duty Drawback of Taxes (DDT), Duty Drawback of Local Taxes and Levies (DLTL) for 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. These subsidy schemes aim to support exports and industrial growth with the ultimate objective of promoting overall economic development of the country. A total of Rs. 54.7 billion was disbursed to exporters against 470,071 claims under DDT and DLTL schemes (Textile & Non-Textile) in FY20 as compared to Rs. 49.7 billion in FY19 registering an increase of 10%.

(Figure 4.1). Moreover, out of the aforementioned Rs 54.7 billion, Rs 38.6 billion were released by Ministry of Commerce, GoP during the COVID-19 pandemic to ease liquidity issues of exporters and to safeguard interests of their workers. Further, penalties amounting to Rs 55.181 million were recovered from non-performing exporters against sugar export quota allocation.

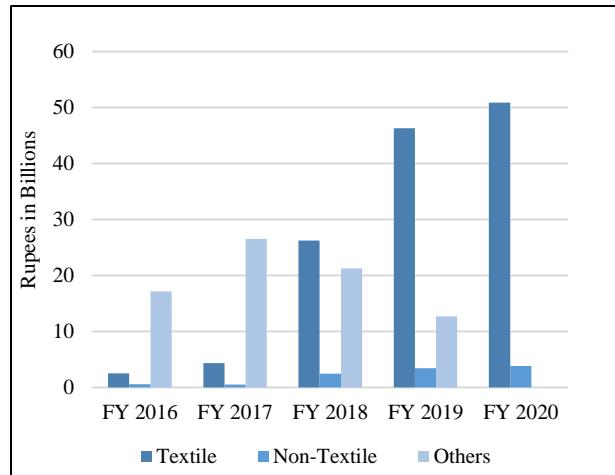


Figure 4.1: Year wise disbursements under subsidy schemes

4.4.2 Commercial, Private and Trade Remittances

SBP BSC processes and approves commercial, private and trade remittances after performing due scrutiny based on wide ranging objectives of Anti Money Laundering / Combating the Financing of Terrorism (AML/CFT). During FY20, SBP BSC enhanced the scrutiny criteria to include numerous risks posed by Money Laundering & Terrorism Financing. During the year, SBP BSC processed 12,908 remittances cases as compared to 14,056 cases in FY19. This 8% decrease is attributable to restrictions placed on imports on open account and the emergence of the COVID-19 pandemic.

Further, 30 cases of commercial outward remittances valuing USD 15 million (approx.) were declined to encourage utilization of locally available services.

Moreover, SBP BSC continued to seamlessly process cases of remittances during the lockdown using the automated case management platform under the Knowledge Management (KM) project. (**Figure 4.2**)

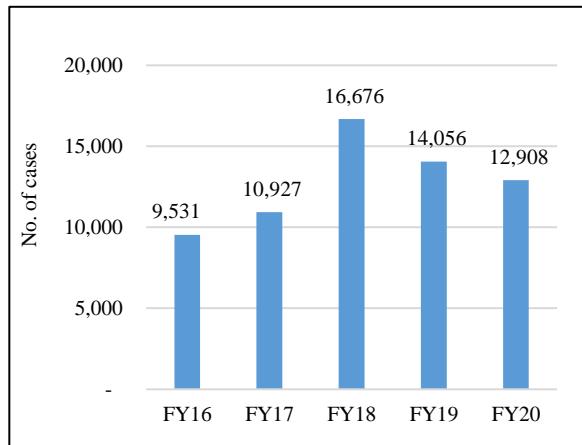


Figure 4.2: Remittance Approvals

4.4.3 Monitoring & Enforcement

Increasing globalization and new trade trends have posed the emerging risk of Trade Based Money Laundering (TBML) for the country. 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. Diligent efforts were made in pursuing delinquent exporters in relation to export overdue cases to ensure realization of overdue export proceeds. Similarly, outflow of foreign exchange through importers, shipping companies, airlines and freight forwarders was closely monitored to safeguard foreign exchange.

4.4.3.1 Off-Site Monitoring of Export

SBP BSC adopted a proactive approach with an objective to recover the overdue export proceeds expeditiously without resorting to litigation process. For this, numerous meetings were conducted with various stakeholders including Customs, ADs, shipping companies, and exporters etc. to ensure repatriation of export proceeds of overdue cases. The rigorous efforts resulted in 10.4% increase in repatriation of overdue export proceeds prior to initiation of adjudication proceedings. The statistics are summarized in table below. (**Table: 4.1**).

Table 4.1: Export Overdue Statistics				
	FY19	FY20	Change	Change (Percent)
Export overdue cases (No.)	49,996	49,331	(665)	-1.3
Export overdue cases (USD in millions)	1,073.10	1,353.5	280.4	26.1
Export proceeds repatriated (USD in millions)	841.5	928.7	87.2	10.4

During FY20, SBP BSC identified 45,532 Electronic Form E (EFE) / export forms valuing USD 1.77 billion that were neither reported as realized in Web Based Online Customs (WeBOC) nor reported as overdue despite the expiry of due dates as compared to 89,946 EFEs in FY19. This delinquency caused understatement of export overdue position. Subsequently, SBP BSC ensured marking of realization against

40,512 Electronic Form-E (75,790 EFEs in FY19), valuing USD 1.62 billion in WeBOC and reporting of 5,020 EFEs valuing USD 145.7 million in Export Overdue Reporting System (EORS) by the ADs.

Further, authenticity of 19,871 manual E-Forms was confirmed during the year. A total of 376 fake E-Forms valuing USD 5.23 million were also identified and referred to Collector of Customs (Adjudication). SBP BSC also reviewed the eligibility and authenticity of export refinance claims by conducting verification and scrutiny process of Export Earning (EE-1) and Export Finance (EF-1) Statements through an excel-based module. The use of this automated module resulted in verification of 684,147 entries during the year as compared to 706,978 in FY19 with significant reduction in turnaround time for verification. Further, monitoring of transactional data in International Transaction Reporting System (ITRS) enabled identification of more than 4,300 discrepancies, which were taken up with the concerned ADs for rectification, ensuring completeness and accuracy of the data as compared to around 23,000 discrepancies in FY19. A total of 5,130 requests for revisions in ITRS were processed as compared to 7,521 in FY19 (**Figure 4.3**). This declining trend in discrepancies after implementation of BPM-6 may be attributed to the support provided by SBP BSC to concerned officers of Authorized Dealers.

4.4.3.2 Enforcement under Section 23K of FERA

Foreign Exchange Regulation Act (FERA), 1947 was amended through insertion of Section 23K, which empowered SBP BSC to exercise powers of levying penalty on all regulatory FE violations of ADs. In order to effectively perform the newly delegated function, a comprehensive operating mechanism, including penalty scale, was devised in consultation with SBP. Accordingly, all the outstanding violations including cases referred by FEA courts, SBP and those identified by SBP BSC during off-site monitoring were processed and finalized. During FY20, around 93,574 instances of violations were processed under Section 23K, which entailed issuing of show cause notices and providing opportunity of hearing to the respective banks. As a result, penalty of Rs. 153.02 million was levied on 15 banks. Due to effective implementation of enforcement function in line with the prevailing FE Regulations, banks made significant improvement in their FE operations structure, strengthened their internal control mechanism, and enhanced staff capacity through trainings. Resultantly, compliance with regulatory instructions improved considerably.

4.5 Complaints & Litigation

SBP BSC effectively handled the litigation / prosecution process and focused on pleading record number of complaints lodged in Foreign Exchange Adjudication (FEA) Courts. Effective pleading and prosecution at FEA Courts lead to decision of 12,334 cases as compared to 7,682 cases in FY19. FEA Courts were also facilitated through reporting of realization status of more than 11,000 cases from WeBOC to ensure efficient disposal of cases. Further, 12,439 complaints were lodged in FY20 against delinquent exporters, who failed

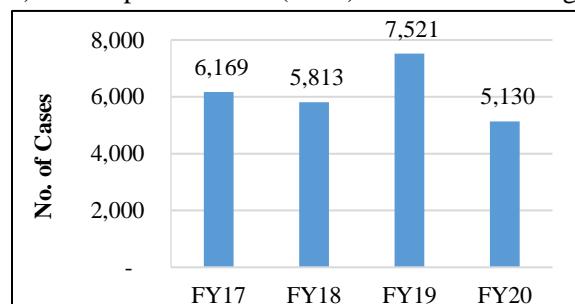


Figure 4.3: ITRS Revisions

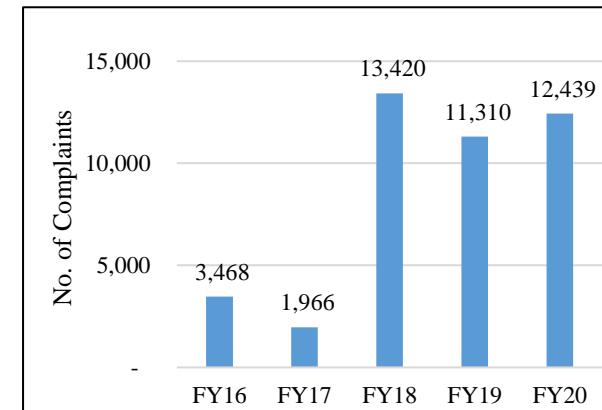


Figure 4.4: Complaints referred for adjudication

to repatriate export proceeds on time as compared to 11,310 complaints in FY19. (**Figure 4.4**). Standard Operating Procedures (SOPs) were also issued to streamline and standardize the complaint process.

In addition, SBP BSC successfully defended and pleaded 27 out of 36 appeals in Foreign Exchange Regulation Appellate Board (FERAB) without hiring external legal counsel, whereas the judgments on remaining 9 appeals are still awaited. The decisions of appeals at Appellate Board resulted in fine recovery of Rs. 6.9 million. Furthermore, comprehensive and detailed counter-reply of 15 cases in High Courts were also prepared in consultation with Legal Services Department (LSD), SBP and submitted in courts through various external legal counsels.

4.5.1 Maintenance of FE allocation

SBP BSC maintains and issues permits for utilization of foreign exchange allocated by Ministry of Finance to different government departments. During FY20, 8,107 approval / verification requests received from various government departments were processed besides coordination on ancillary matters.

4.5.2 Import and Export of Foreign Currencies through Airport Booths

In order to facilitate Exchange Companies (ECs) in exporting permissible foreign currencies (FCY), other than USD, and importing of USD-equivalent currencies, SBP BSC has placed airport booths at four major airports of the country, i.e., Karachi, Lahore, Islamabad and Peshawar. The consolidated figures of export and import of FCY was shared with SBP for inclusion in its various reports. SBP BSC's staff deployed at these airport booths ensured that import and export of FCY was conducted according to the applicable FE regulations whereas, independence of staff was ensured through regular rotations. Previously 100% FCY exports were routed through hand carry parcels, however due to COVID-19, flight operations were suspended for passengers, which halted export / import of FCY through carriers. Hence, a mechanism for export of FCY through cargo flights was successfully implemented in consultation with SBP. Following SBP BSC's lead, ECs also commenced their FCY exports through cargo flights for subsequent repatriation in USD-equivalent currencies through their FCY accounts.

Table 4.2: Summary of Cash FCY Exported and Imported during FY20

City	Export Eqv. USD	Import USD
Karachi	911,034,953	767,681,796
Lahore	1,266,740,983	131,027,896
Islamabad	204,229,772	-
Peshawar	103,896,194	-
Total	2,485,901,902	898,709,692

4.5.3 Facilitation Desk

Facilitation Desk was established in March, 2019 to assist the external stakeholders in cases of commercial remittances and other FE related issues. The Desk handled around 500 queries during FY20.

4.6 Developmental Initiatives

4.6.1 SBP Regulatory Approval System (RAS)

In line with the SBP's Vision 2020, SBP BSC implemented the Automated Case Management System under the umbrella of Knowledge Management (KM) project to improve efficiency through automation and to shift towards a paperless environment by utilizing the latest technology. This substantial initiative of SBP BSC enabled it to capture, store, and share knowledge in a centralized repository, thereby allowing easy access to information and documents with enhanced content search capability. Building on this

concept, SBP BSC formally launched its online portal for submission of FE related cases on March 24, 2020, which proved to be a key breakthrough in COVID-19 lockdown, enabling the officers to perform their duties off-site when required.

Further, the discontinuation of paper-based submission aided in reducing the accumulation of physical record thereby saving substantial time, courier, storage costs and enabling faster decision making. Moreover, in order to facilitate clients, system-generated emails, containing updated status of cases, were sent to clients through RAS. In addition, the clients were also given the option to view updated status of their cases from the SBP's website, which was conducive towards enhancing transparency and real-time information for Bank's stakeholders.

4.6.2 Implementation of BPM-6 (Balance of Payment Module 6)

During the year, SBP BSC facilitated in the implementation of export module of IMF's Balance of Payment Module (BPM-6) – an IMF-issued set of reporting guidelines for compilation of Balance of Payment information. This system provided enhanced electronic reporting of foreign exchange transactions. The system, by applying critical data validation rules, enabled electronic reporting of Export Advance Payment (EAP) utilization, as well as allowed separate reporting of partial export proceeds from EAPs with incorporated exchange rates. This resulted in substantial reduction of reporting discrepancies by around 82% from the previous year. Further, it also led to discontinuation of manual EAP Register and related paper-based submissions by ADs across all field offices with reduced HR and physical record maintenance requirements, thereby enabling enhanced monitoring by virtue of availability of structured data.

Moreover, implementation of BPM-6 also laid down the foundation of the Project titled 'Automation of EE/EF Verification', which was a key component of SBP BSC's initiative "Delegation of EFS Operations to commercial banks". Additionally, ITRS Revision Module was developed in January 2020 for effecting Non-Nostro revisions for swift resolution of subsidy cases, EFS claims, remittance approvals, and rectification of FE reporting discrepancies.

4.6.3 Online Portal for Government Subsidies on Export

SBP BSC continued to actively pursue the project of establishing an Online Portal for Government Subsidies on Export. Successful system testing was carried out and the implementation is expected soon in coordination with Ministry of Commerce and Textile (MoCT). The development will significantly reduce the processing time per case, thereby, reducing HR requirements, besides, eliminating duplication of work, chances of errors due to manual intervention, and physical record keeping.

4.6.4 Electronic Data Interchange (EDI)

In order to enable the availability of shipment and realization data of Electronic Form E (EFEs) and Electronic Import Forms (EIFs) through an automated daily feed from WeBOC, SBP BSC vigorously pursued the implementation of EDI in coordination with Pakistan Customs and successfully completed the system testing. Once implemented, this interface will open avenues for extensive monitoring of trade related data. Daily feed will also facilitate various foreign exchange operations, which involve verification and reconciliation with shipment details. Major work has been completed on the project and deployment will be carried out after finalization of data security protocols in coordination with Pakistan Customs.

4.6.5 Policy Revisions

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

4.6.6 Other Monitoring Developments

SBP BSC also filed its first STR (Suspicious Transaction Report) on FMU's online GoAML portal pertaining to over-invoicing of Solar Panel imports from China. Quarterly off-site monitoring reports related to FE related transactions were prepared for the management and were subsequently shared with relevant departments of SBP for further action. Further, an excel-based 'Money Laundering Risk Assessment Model' for risk profiling of FE related cases was developed using a score-based approach. Moreover, an access-based 'Name Search Engine' was also developed which contained approximately 22,700 names of blacklisted individuals and entities for system-based name screening.

4.7 Future Outlook

Launch of Regulatory Approval System (RAS) on March 24, 2020 for online submission of foreign exchange related cases marked the completion of first phase under Knowledge Management (KM) Project, which is expected to bring efficiency, transparency, and time bound decision making in the industry along with encouraging paperless environment. SBP BSC is also committed to pursue the second phase of this project for end-to-end Digitization of FE cases which will enable the customers of commercial banks to electronically submit requests for FE related cases through their respective commercial bank's portal. The completion of second phase will fully digitize FE case submissions from customers to banks and vice versa, thereby, significantly revamping the FE operations.

Further, initiatives including EDI (Electronic Data Interchange), integration of data universe including Exporter's Information Portal (EIP), automation of EE/EF verification, and online portal for processing of Government subsidy schemes on exports are expected to enhance operational efficiency of FEOD through automation and process re-engineering in the near future. Furthermore, development of "Money Laundering Risk Assessment Model" for risk profiling and 'Name Search Engine' for name screening is likely to introduce a dynamic perspective in scrutiny of FE cases under off-site monitoring. Filing of STRs on FMU's GoAML portal will also provide a pathway for monitoring of suspicious activities in FE operations.

Moreover, regulatory actions under section 23 K of FERA, 1947 against AD's found in violations of FE regulations will keep the flows of foreign exchange in check, thereby instilling a culture of round-the-clock monitoring in the banking industry.

5. Foreign Exchange Adjudication

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

5.1 Overview

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

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

5.2 Key Stakeholders

- Importers and Exporters
- Exchange Policy Department, SBP
- Legal Services Department, SBP
- Banks / Authorized Dealers (ADs)
- Foreign Exchange Operations Department

5.3 Key Performance Highlights during the Year

Box 5.1: Key performance Highlights during FY20

- Increased realization of export proceeds by 19% during FY20 as compared to previous year
- Increased disposal of cases by 61% during FY20 as compared to previous year
- Increased On-site hearings by 37% during FY20 as compared to previous year
- Repatriated around USD 57 million of export proceeds during the last quarter of FY20 despite limitations imposed due to COVID-19

5.3.1 Repatriation of Export Proceeds

Exporters with outstanding export proceeds are provided an opportunity to regularize their position by arranging for realization of their overdue export earnings. Since the establishment of Foreign Exchange Adjudication mechanism in 1990, FEA courts have managed repatriation of USD 1.07 billion from the exporters who earlier failed to bring export proceeds back within stipulated timelines while violating the provisions contained in section 12(1) of FERA, 1947. The repatriation position for the last 5 years is depicted in **Fig 5.1**:

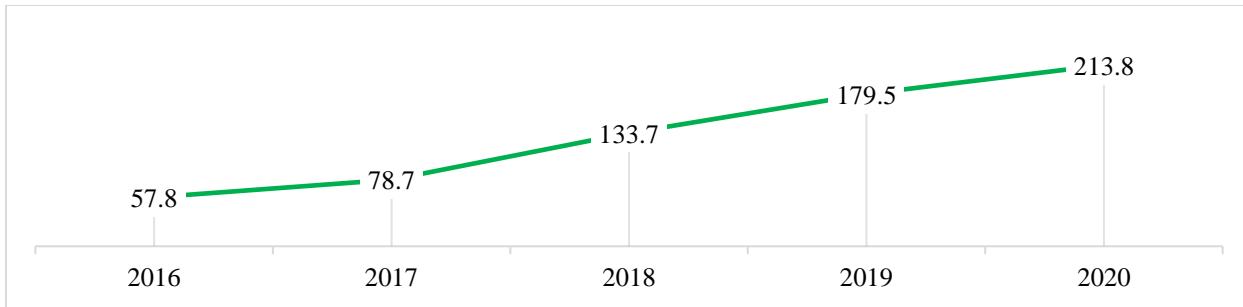


Figure 5.1: Realization of Export Overdue Proceeds (in million US Dollars)

During FY20, export proceeds equivalent to USD 213.8 million (highest ever in a year) were realized as compared to USD 179.5 million in FY19 registering an increase of 19%. Total outstanding export proceeds at the year-end stood at USD 923 million.

5.3.2 Disposal of Cases

During FY20, a total of 12,787 new cases were lodged which brought the total workload for the year to 35,812 cases. Moreover, an increase of 61% was witnessed in the disposal of cases as FEA courts disposed 12,334 cases as compared to 7,682 cases in the preceding year. **Table 5.1**

5.3.3 On-site and Off-site Hearings

Adjudication Courts	Number of Cases		% Change
	FY19	FY20	
Karachi	3,682	4,074	11%
Lahore	2,113	5,866	178%
Faisalabad	543	657	21%
Multan	313	401	28%
Sialkot	583	992	70%
Quetta	149	207	39%
Rawalpindi	299	137	-54%
Total	7,682	12,334	61%

Before COVID-19 pandemic, during the first 9 months of FY20, the courts conducted 281,366 on-site hearings, which was 37% higher than 205,000 hearings in same period in the previous year. While adopting the strategy to combat COVID-19 through effective use of available technology and means of virtual communication, follow up of off-site cases continued and FEA Courts managed to repatriate around USD 57 million of export proceeds from April to June, 2020.

5.3.4 Analysis of Entire Portfolio of FEA Courts

An in-depth analytical review of the entire operational data of all FEA courts was conducted during the year. This detailed exercise provided an in-depth outlook of the challenges that may be streamlined through improved operational guidelines and policy interventions. Accordingly, necessary measures were taken to improve operations in challenging areas.

5.4 Future Outlook

SBP BSC aims at enhancing operational efficiency in its adjudication function through enhanced use of technology. It is also in the process of developing Electronic Complaint Lodgment and Management System under the bank-wide Knowledge Management program which will facilitate smooth and timely transfer of information between the Foreign Exchange Operations and Foreign Exchange Adjudication functions. This initiative will ensure timely lodgment of complaints by the complainant and efficient and expeditious proceedings of cases at FEA courts.

Human Resource and Support Services Group

6. Human Resource Management

Human Resource Management (HRM) function at SBP BSC is critical in many aspects, ranging from establishment of systems for talent resourcing, to performance development and succession planning. It also plays an integral role in forming a culture in which employees possess the required level of competence, concern and commitment to serve the organization.

6.1 Overview

Through Human Resource Management, SBP BSC employs the best human resources, nurtures their talent, and ensures a conducive working environment to motivate the work force in making effective contributions towards the organizational objectives. SBP BSC makes every effort in keeping the workforce engaged and motivated in order to contribute to overall organizational goals / objectives.

6.1.1 HR Profile

During the year, SBP BSC continued workforce rationalization for achieving optimum HR strength especially in the wake of ongoing automation drives, particularly in core business areas including banking, foreign exchange operations and currency management along-with support functions. Further, consequential to the process reforms, expansion in business operations and enhancement of required service standards, the demand for HR has been altered at SBP BSC, now requiring manpower with enhanced skill set to compliment the transformation in business functions. Accordingly, the resulting gap between required and available HR has been abridged by employing a diverse set of approaches including recruitments, internal promotions, deputation/absorption of services of SBP officers and investment on training and development beside various process interventions and BPR initiatives. Consequently, SBP BSC has witnessed 61% reduction in the workforce since its inception. The grade-wise comparison of headcount at inception and for FY19 and FY20 is given in **Table: 6.1**.

Table 6.1: SBP BSC Working Strength						
Grade	No. of Employees					
	At inception		FY 19		FY 20	
	Total strength	%	Total Strength	%	Total Strength	%
OG-7	-	-	3	0.12 %	3	0.13%
OG-6	-	-	8	0.3 %	9	0.38%
OG-5	36	0.7%	44	1.7 %	45	1.92%
OG-4	71	1.3%	81	3.2 %	80	3.41%
OG-3	296	5%	276	10.8 %	267	11.38%
OG-2	958	16%	842	33.1 %	786	33.50%
OG-1	2,091	35%	890	35.0 %	833	35.51%
Below OG-1	2,512	42%	401	15.8 %	323	13.77%
Total	5,964	100%	2,545	100 %	2,346	100%

6.2 Key Performance Highlights during the Year

Major performance Highlights of HR function of SBP BSC are given in **Box 6.1** below:

Box 6.1: Key performance Highlights during FY20

- Effectively implemented the preventive measures against COVID-19 pandemic including devising a structured mechanism to allow employees to work from home.
- Developed framework for conducting Training Need Assessment
- Completed Compensation and Benefit Survey
- Carried out comprehensive review of the benefits admissible to contractual workforce as well as their terms of employment
- Signed Charter of Demand with the CBA after successful negotiations ensuring industrial peace

6.3 Operational Performance

During the year, SBP BSC took multiple initiatives to improve the efficacy of its HR policies and align them with organization's strategic priorities. The organization operated at optimum level by keeping an absolute minimum number of employees at its premises in order to avoid the spread of the COVID-19 pandemic.

6.3.1 Talent Resourcing

To adequately resource the business and support areas with requisite talent, young as well as experienced resources/specialists were engaged at various levels, both in regular and contractual cadres. Detail of major recruitment initiatives is given in **Box 6.2**

Box 6.2 Brief on Recruitment Initiatives during FY 2019-20

- Hired 10th Batch under the Officers Training Program (OTP) comprising of 82 Officers in OG-1 cadre
- Hired 8th Batch under the Young Professionals Induction Program (YPIP) comprising of 72 Officers in OG-2 cadre
- Hired Chief Security Officer and 20 contractual Security Guards
- Inducted 7 Medical Consultants on contract for Bank Health Clinics at Head Office Karachi and at field offices

6.3.2 Career Development

The management of SBP BSC strives to structure career progression of its employees, provides growth opportunities, and recognizes talented individuals under credible succession arrangements. In this regard, a total of 277 promotions of officers & unionized staff were awarded in FY20 after completing the evaluation process as per applicable promotion policies. Detail is presented in **Table 6.2**.

Table 6.2: Cadre-wise Promotions

Cadre	Employees Promoted
Officers	115
Clerical/Non-Clerical Staff	162
Total	277

6.3.3 Performance Management System

Accurate performance tracking and appraisal of employees is critical in achieving organizational objectives. Accordingly, to improve the effectiveness of PMS process certain amendments were introduced in PMS clusters to accommodate the changes in HR structure in the organization. In this regard, upon completion of three year period since merger of cash, general and other functions, a grade-wise cluster was introduced for PMS of FY2019-20 instead of function-wise cluster against cash and general side as observed in the past. In addition, as per revised instructions, reporting hierarchy of officers attached with FEA courts at field offices was also revised for performance appraisal purpose. Moreover, in wake of ongoing COVID-19 pandemic, timely completion of PMS process of FY2019-20 was ensured by circulating brief guidelines to facilitate the employees working from home. The bell curve distributions maintained in the PMS process are depicted in **Table 6.3** above.

6.3.4 Industrial Relations

Being a part of central bank, maintenance of conducive work environment for workmen and industrial peace is a priority area for SBP BSC. In the same spirit an amicable working relationship is maintained with the Collective Bargaining Agent (CBA) as per provision of labour laws. The current year also included successful negotiation and signing of charter of demand with the CBA.

6.3.5 Training and Development

In Training and Development a number of diverse capacity building opportunities were provided to the employees through training programs at NIBAF, domestic institutions of repute (IBA, LUMS, PSTD etc.) and foreign training institutes. Moreover, training budget to all field offices was allocated for conducting in-house training sessions and for nominations of officers in local training institutions. Brief summary of various training tracks and number of participants is given in **Table 6.4** and major initiatives are provided in **Box 6.3**.

Table 6.3: Bell Curve Quota Distribution

A	B+	B	C	D
10 % *	20 %	55 %	10 %	5 % *

*On earning basis

Table 6.4: Participation levels in Training Tracks

Training Tracks	Participants
NIBAF (ISB & KHI) Campuses	1,151
In-house Trainings at field offices	1,181
External Domestic Trainings (LUMS, IBA etc.)	173
Foreign Trainings	18
LAMS and NIBAF E-Leaning Portals	333
Total	2,856

Box 6.3: Brief on Training Initiatives during FY20

- Developed a comprehensive Training Needs Assessment (TNA) framework to enhance the effectiveness of training and development at SBP BSC. The implementation is to be carried out in a phased manner beginning with OG-4 & OG-5 officers in 2020-21
- Developed framework for Training Impact Analysis (TIA) to provide a sustained and robust mechanism for identifying the capacity development needs of employees in terms of availability of current and future skill set, talent development, and succession planning
- Organized a three-month training program for 72 officers inducted under 8th batch of YPIP at NIBAF, Islamabad. The curriculum was reviewed and necessary amendments were made to enhance effectiveness of the training program
- Revised the Standard Operating Procedures (SOPs) for selection of Master Trainers to provide opportunities to highly motivated, proficient, and subject matter specialists to become master trainers
- Consequent to the suspension of classroom-based trainings in COVID-19 pandemic, a framework for conducting virtual trainings was approved to give learning opportunities to officers working from home and offices. A number of Virtual Instructor Led Trainings (VILT) were arranged through NIBAF
- A total of 166 officers completed online courses on ‘Cyber Security and Phishing’ through e-Learning Portal of NIBAF
- Roll out of LAMS at NIBAF was completed
- For the first time, a winter internship program was arranged at Muzaffarabad office for 34 students

6.3.6 Employee Relations

The overall mandate of Employee Relations (ER) encompasses employees' disciplinary, administrative and audit matters. Further, ER also deals all legal matters pertaining to HR and undertakes verification of academic credentials as well as character and antecedents of new hires. During FY20, for expeditious verification of employee credentials, a strong liaison was successfully established with Intelligence Bureau (IB) along with online verification of academic credentials from different universities. These initiatives accelerated the process of confirmation of service of employees on probation. Consequently, during the year, 233 employees were confirmed in service and 339 retirement cases were processed in a seamless manner.

6.3.7 Sports & Recreational Activities

In line with SBP's initiative to patronize sports, various sporting events were successfully arranged during the year. In order to diversify sports portfolio, Table Tennis and Snooker teams were inducted by SBP BSC. Details of major sports events / achievements are provided in **Box 6.4**

Box 6.4: Brief on Sports Events/Achievements during FY20

- 16 teams participated in the 16th SBP Governor's Interbank Super Series T-20 Cricket Tournament which is a hallmark event of the Bank for promoting cricket in banking fraternity. The unique combination of Bankers and Professional Club Cricketers participating in the event helped enhance cricket skills besides patronizing cricketers
- Around 200 employees of the Bank participated and showcased their sports skills in the 11th Cricket tournament and the 6th Football tournament organized for employees during the year
- The inter-school tournaments organized by SBP BSC have always been recognized in sports circle. The 9th Inter School Boys and Girls Cricket Tournaments were carried out with the objective of promoting sports at grass root level and to serve as a nursery for developing future players. Thirty two different schools participated in these tournaments
- Eight teams participated in the 7th SBP Inter Club Women Football Tournament which was organized during FY20. The event is a great platform for women footballers to exhibit their talent
- During the year, the newly established snooker team represented Pakistan in various international snooker championships and won numerous laurels for the country, including the World Cup title which was clinched by Mr. Muhammad Bilal at Qatar and the National U-16 Snooker Championship title which was secured by Mr. Ahsan Ramzan at Islamabad

6.4 Developmental Initiatives

6.4.1 Preventive measures taken to address COVID-19 Pandemic

In the wake of COVID-19 pandemic the organization responded vigilantly and took several measures to prevent spread of the disease in the Bank and protect its employees from any health hazard. An overview of the major initiatives carried out by SBP BSC during COVID-19 is provided in **Box 6.5:**

Box 6.5: Instructions issued regarding HR Matters:

- Initiated Work-From-Home (WFH) arrangements to enable remote working for employees from their homes
- Reduced workforce in a phased-wise manner, whilst monitoring the rise in COVID-19 cases in the country
- Ensured that employees with an age of 50 or more and female employees were sent to WFH in the first phase and only the critical employees attended the office at the peak of COVID-19 pandemic
- Suspended holding of large gatherings including official events and trainings and ensured that official meetings were held via video link
- Regularly monitored COVID-19 positive cases on pan Pakistan basis and issued necessary instructions as and when required to ensure safety of the employees
- Instructed all those employees who showed symptoms for COVID-19 to quarantine themselves for 15 days
- Suspended ex-Pakistan leave to affected countries and developed SOPs for employees returning from ex-Pakistan visits
- Contacted pensioners to advise them to collect their pensions through bank accounts or schedule payments in staggered manner to avoid unnecessary gathering and queuing within organization's premises. Also encouraged pensioners to send their family members with an authority letter to receive pension

6.5 Future Outlook

Workforce requirement at SBP BSC is experiencing a paradigm shift, not only in terms of capacity and job specification but also in terms of the required HR strength. The constantly evolving HR dynamics are a consequence of multiple automation initiatives, BPR, workforce rationalization, and blended HR profile attributable to fresh inductions. The HR team at SBP BSC is committed to streamline its policy framework in order to pave the way for better HR integration in line with evolving organizational needs. The plan is to further reduce manual interventions, remove duplications and enhance risk mitigation in operations in coordination with concerned stakeholders. It is expected that implementation of online case management under Knowledge Management initiative would significantly lessen paper work and reduce the turnaround time in the processing of cases.

Going forward, SBP BSC aims to focus on skills upgradation, leadership development, and credible succession planning to motivate the existing workforce, and provide them with ample opportunities for professional development and career growth. For this purpose, SBP BSC through its HR function, also intends to formulate a career progression framework and develop a training management system to enable its workforce to flourish not only as individuals but also as synergistic team members.

7. General & Support Services

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

7.1 Overview

SBP BSC provides efficient and reliable support to SBP and its subsidiaries through its General Services, Engineering and Internal Bank Security functions. All support services remained focused on continuous service delivery and improvements in turnaround time to meet the stakeholders' requirements.

7.2 General Services

General Services comprises of procurement of goods, services, and consultancies in a transparent manner under the Public Procurement Regulatory Authority (PPRA) rules and applicable World Bank's procurement regulations. SBP BSC also manages in house printing of important publications and provides quality and timely health care services to serving and retired employees of SBP and SBP BSC. Healthcare services were concentrated during the COVID-19 pandemic.

7.2.1 Key Performance Highlights during the Year

Box 7.1: Key Performance Highlights of General Services for FY20

- Completed procurement of Banknote Processing and Authentication Systems (BPAS) as per PPRA rules
- Facilitated in the procurements under Financial Inclusion & Infrastructure Project (FIIP) as per World Bank's Procurement Regulations
- Implemented Management Information System (MIS) for effective monitoring of ongoing procurements
- Reduced procurement cycle from 102 days to 70 days for standard procurements by process improvements
- Increased the number of 'A' category hospitals and enlisted them on Bank's panel
- Provided medical facilitates to about 30,000 serving, retired employees and their dependents

COVID-19 Measures

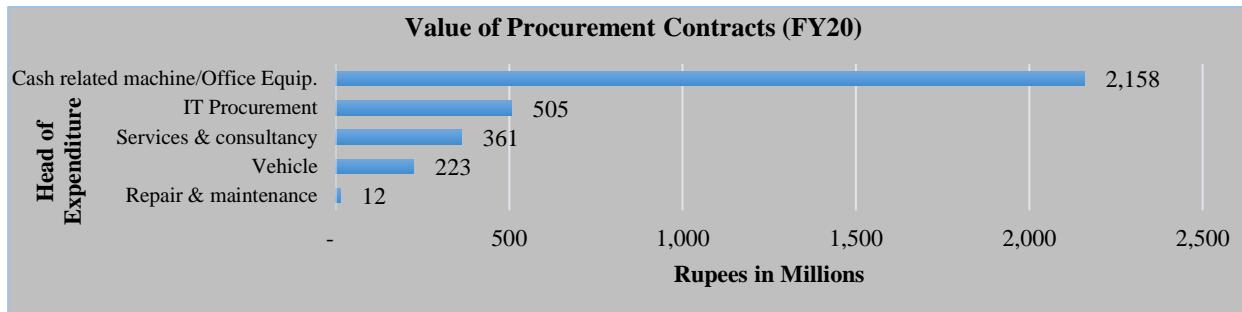
- Formulated SOPs under COVID-19 Outbreak Strategy
- Constituted Special Cell for COVID-19 case facilitation

7.2.2 Operational Performance

During the year, 177 procurement projects worth more than Rs 3.258 billion were carried out while adhering to the necessary procurement regulations, including the notable procurements of Banknote Processing and Authentication Systems (BPAS) and SWIFT System upgradation.

Further, SBP BSC also facilitated different departments of SBP in carrying out procurement under Financial Inclusion & Infrastructure Project (FIIP) in line with World Bank's procurement regulations. Major procurements are listed in **Fig 7.1**.

Figure: 7.1 Major Procurements



7.2.3 Measures during COVID-19

SBP BSC through its Medical Services Division remained at the forefront in implementing organizational strategy to combat COVID-19. During the outbreak, the organization issued regular and detailed SOPs on precautions to be undertaken, ensured continuous supply of hand sanitizers, face masks, gloves, disinfectants, etc. and made special arrangements to test and treat the affected employees and their eligible dependents.

7.2.4 Development Initiatives

During FY20, two diverse studies were conducted namely, "Study of Outsourced Services Models of different Public Sector Entities (PSEs)" and "Procurement Practices followed by different PSEs". In light of these studies, SBP BSC updated and standardized the procedures for procurement of outsourced staff and services and implemented them across all offices in order to mitigate legal risks.

7.2.5 Future Outlook

SBP BSC plans to capitalize on IT-intensive solutions to augment delivery of its general and support services. For this purpose, establishment of e-service helpdesk, e-billing, and e-claim systems are planned to be implemented in near future. Further, the organization plans to improve management of its physical record through digitization & automation. Moreover, SBPBSC is exploring viability of 'e-procurement' methodology for improving efficiency of procurement processes.

7.3 Engineering Services

SBP BSC through its engineering function supports, maintains, and upgrades the physical working environment at office premises of SBP and its related subsidiaries.

7.3.1 Key Performance Highlights during the Year

Box 7.2: Key Performance Highlights of Engineering for FY20

- Re-initiated the project “Construction of Balance Work of New Office Building at Sialkot”
- Completed engineering work on Banknote Disintegration System (BDS) sites at Lahore, Faisalabad, Peshawar and North Nazimabad offices
- Completed construction of ramps and purpose built washrooms to facilitate differently abled people at various field offices
- Resolved over 3,000 complaints related to telecommunication, electrical, mechanical, civil and janitorial works etc.
- Ensured regular disinfection of office premises during COVID-19 at HOK and all field offices

7.3.2 Operational Performance

Major engineering projects completed by SBP BSC during the year included installation of (i) new lift in Hyderabad office, (ii) H.T panel in Faisalabad office (iii) hot water boilers at NIBAF Islamabad, and (iv) solar panel at SBP BSC backup site. Moreover, to secure the SBP plot at Khuzdar, a pre-cast boundary wall was successfully installed.

Furthermore, key engineering projects initiated during the year comprised of (a) upgradation of HVAC system at Rawalpindi, Faisalabad and Multan (b) installation of 200KVA genset at Muzaffarabad (c) installation of 350TR chiller at main building, and (d) installation of cargo lift at Islamabad (e) construction of two residential buildings at Lalazar Karachi (f) upgradation of fire-fighting at museum and art gallery. Tendering process for large projects was initiated after obtaining in-principle approval from the Board.

7.3.3 Development Initiatives

To improve service delivery standards, a maintenance management software was successfully implemented at HOK to ensure enhanced responsiveness and timely preventive actions against building maintenance issues. Regular disinfection of all work places and public areas was also carried out to safeguard employees of SBP and SBP BSC from the COVID-19 pandemic.

7.3.4 Future Outlook

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

7.4 Internal Bank Security

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

security risks of SBP and its subsidiaries in collaboration with management and Law Enforcement Agencies (LEAs).

7.4.1 Operational Performance

During the year, SBP BSC managed physical security, firefighting, and associated safety requirements of SBP and its subsidiaries to safeguard employees, and bank-owned facilities from potential hazards. The organization maintained close liaison and coordination with relevant Law Enforcement Agencies (LEAs), Civil Defense and Fire Brigade for assistance on need basis. Further, regular firing practice exercises and periodic Physical Efficiency Tests (PETs) of security personnel were conducted. Moreover, general awareness campaigns on security and safety precautions were executed through online messaging.

7.4.2 Developmental Initiatives

During FY20, a review of security arrangements and systems at SBP HOK Complex and field offices was carried out. Further, administrative side of security arrangements were also reviewed internally which led to rationalization of outsourced security guards, and resulted in an estimated saving of Rs. 30 million per annum. Moreover, capacity building of security staff was carried out through on-the-job trainings, in-house firefighting rehearsals, and Mock/Table Top exercises throughout the year. Further, procurement and maintenance of weapons, security & surveillance equipment, and firefighting apparatus was ensured for the security and safety of SBP, SBP BSC HOK and field offices.

7.4.3 Future Outlook

Going forward, the Internal Bank Security function intends to enhance its capacity through various measures which are listed in **Box 7.3:**

Box 7.3: Security Measures for the Future

- Installation of Integrated Security Systems (ISS) at various sites of SBP & SBP BSC
- Skill upgradation of the security staff in a phased program to manage varying level of security threats
- Rationalization of police force hired under Federal Treasury Rules (FTR) to maintain the ratio between Bank's security guards and the police force
- Enhancement of escort / protection for Very Important Persons (VIPs)
- Review of procedures of surveillance, security and fire safety equipment
- Conversion from analogue to digital wireless communication system all over Pakistan in a phased manner

8. Internal Audit

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

8.1 Overview

SBP BSC's Internal Audit provides an independent and objective assurance regarding the effectiveness of SBP BSC's governance, risk management, and control processes. It advises and recommends improvements in internal controls and risk management framework to the senior management. It also furnishes summarized results of audit activities to the Audit Committee of the SBP BSC Board while assisting the committee in its oversight responsibilities on internal controls, governance, and business practices.

Internal Audit function of SBP BSC utilizes a risk-based Internal Audit Plan whose objectives are to review organization-wide business processes and to identify their associated risks. For this, a ranking system is used to prioritize audit activities in order to ensure that all significant risk areas are covered and that resources are appropriately deployed to achieve audit objectives. In this respect, a Risk Assessment Framework (RAF), aligned with the organization's Enterprise Risk Management Framework, is used to evaluate and rank the identified risks.

8.2 Key Performance Highlights during the Year

Box 8.1: Key performance Highlights During FY20

- Received highest performance ranking for maintaining International Standards for the Professional Practice of Internal Auditing Framework (IPPF) of Institute of Internal Audit (IIA)
- Adopted the use of Electronic Content Management (ECM) and Team Space to foster Knowledge Management's (KM) implementation
- Resolved 737 audit observations through active follow-up
- Conducted in-house trainings sessions as well as webinars for capacity building of internal audit team

8.3 Operational Performance

8.3.1 Audit Engagements during the year

During FY20, Internal Audit carried out 41 audit engagements, details of which are depicted in **Table 8.1**. The COVID-19 pandemic and lockdowns compelled Internal Audit function to suspend its field audit engagements in March 2020.

Table 8.1: Audit Engagements During the Year	
Audit Types	Engagements Completed
Annual	20
Hub	19
Thematic	2
Total	41

8.3.2 Resolution of Audit Observations

During FY20, Internal Audit strengthened its follow-up process for resolution of significant number of outstanding audit observations. A cumulative total of 737 audit observations were resolved during the year and only 21 observations were outstanding at year end.

8.3.3 Capacity Building of Audit Officials

Capacity building of Internal Audit officials remained a top priority of the management. In order to keep auditors abreast with the best practices, 43 trainings through in-house trainings and webinars were imparted on 13 different topics during FY20. An exclusive training program on adopting and implementing agile auditing was also arranged for auditors. In addition, a competency assessment and development framework was developed to ensure compliance to Institute of Internal Auditor's (IIA) standard on proficiency.

During the year, first ever external quality assessment review of SBP BSC's Internal Audit was carried out by one of the big four audit firms. The objective of the review was to assess the level of conformance of Internal Audit with the International Standards for the Professional Practice of Internal Auditing Framework (IPPF) of IIA, formally adopted by Internal Audit function in March 2019. The results of review concluded that SBP BSC's Internal Audit "generally conforms" to international standards on overall basis, which is the top level of conformance with the standards.

8.4 Development Initiatives

During the year, an agile auditing framework was developed with the objective to evaluate, align, and adopt emerging agile auditing practices in Internal Audit's methodology. Furthermore, a continuous auditing framework was adopted to augment the audit reviews by utilizing available soft data of transaction processing systems such as T-24 and Oracle ERP on continuous basis. A metadata repository comprising of relatively static data like annual business plans, budget /utilization, human resources etc. was created for timely review. These initiatives enabled the Internal Auditors to plan their audits in a focused manner and execute their audit engagements efficiently. In addition, a compliance assessment framework was adopted which provided a holistic view of different legal and regulatory requirements. Initially, this framework will be utilized to assess adherence of procurement practices against the Public Procurement Regulatory Authority (PPRA) rules. Further, the Electronic Content Management (ECM) was implemented which facilitated document sharing and audit teamwork.

8.5 Future Outlook

The acceleration in the pace of currency automation, use of Alternate Delivery Channels (ADCs) in government banking, implementation of Knowledge Management, and several other organization-wide initiatives are redefining organization's business model, and its governance, risk management, and internal controls landscape. Internal Audit function aims to evaluate these interventions and assist the management in the best possible manner. For this purpose, Internal Audit is in the process of adopting innovation by remodeling audit assignments to bring agility and to leverage the proliferation of data and technology to deliver value to the organization.

9. Strategic and Corporate Affairs

Strategic and Corporate Affairs performs diverse set of functions to support and augment the Corporate Governance Framework at SBP BSC and facilitates the strategic and business planning process while ensuring that it is aligned with the strategic vision of SBP and SBP BSC.

9.1 Overview

SBP BSC through its Strategic and Corporate Affairs function manages the affairs of the Board and its Committees. It also facilitates the strategic and business planning process ensuring that SBP BSC's initiatives are aligned with the long and short term goals of SBP and that they are executed in an efficient manner. The function also assists with the collective decision-making by the senior management on operational and strategic issues by conducting meetings of Heads of Departments, Chief Managers, and various other Management Committees. Moreover, it also provides system support in the areas of T-24 (Banking and Currency), Enterprise Resource Planning (ERP), and Custom Built Applications (CBA) to SBP BSC users through its First-Level Helpdesk.

9.2 Key Performance Highlights during the Year

Box 9.1: Key Performance Highlights during FY20

- Facilitated a total of 16 meetings of the SBP BSC Board and its committees
- Revamped the Business Planning process to align BP projects with SBP BSC's strategic initiatives
- Ensured formulation of rationalized and impactful BP projects for FY 21
- Digitally archived all available past record (2008-2015) of the SBP BSC Board and its Audit Committee
- Developed a Knowledge-Based document for Oracle ERP and Custom Built Applications
- Created / updated 3,621 payment profiles of serving employees, retirees, and suppliers to enable electronic payments
- Resolved over 15,000 incidents of T-24 (Banking and Currency) and Oracle ERP system users across SBP BSC through First-Level Helpdesk

9.3 Operational Performance

9.3.1 Strategic Initiatives of SBP BSC

In order to adequately align the organizational priorities with SBP's Strategic Plan and objectives, SBP BSC formulated, monitored, and implemented various strategic initiatives during the year. Among these, the major interventions comprised of automation of currency operations, digitization of payment systems, enhancing use of ADCs, BPR of various operations, supporting financial inclusion and development finance, monitoring of foreign exchange as well as absorbing additional operational activities delegated by SBP.

The aforementioned strategic initiatives have enabled SBP BSC in transforming its business model to maximize operational efficiency and improved service delivery. A number of futuristic proposals in the areas of digitization / automation of payment system / transactions, enhancement of trade based monitoring of foreign exchange, and establishment of new business opportunities were envisaged and implemented.

9.3.2 Business Planning at SBP BSC

During the year, Strategic and Corporate Affairs team in coordination with coordinators of HOK departments, field offices and Information Technology Group (ITG) ensured effective monitoring and execution of 446 projects envisaged in the BP of FY20. Out of these, 191 projects were completed during the year, including 32 IT projects, whereas 143 developmental and operational projects were at an advanced stage of completion at the end of the year.

Further, Business Planning process of SBP BSC was also revamped to ensure that meaningful developmental/operational projects are formulated in FY21 and onwards to support the Strategic Plan of SBP in an efficient manner. As a result, after rigorous rationalization of business plans at various management levels, 333 projects were approved for FY21, majority of which were closely linked with the tactical objectives and strategic goals of SBP.

Table 9.1: Business Plan Projects		
Regions	FY20	FY21
HOK Departments	198	140
North Region field offices	73	61
Central Region field offices	113	65
South Region field offices	62	67
Total	446	333

9.3.3 Board and its Committees

16 meetings of the SBP BSC Board and its Committees (Audit, HR, and Publications Review) were conducted during the year, details of which are provided in **Table 9.2**. The compliance of decisions of the Board and its committees was ensured through active and frequent coordination with all stakeholders.

9.3.4 Amendments to the SBP BSC Ordinance

Table 9.2: Meetings of the SBP BSC Board and its Committees held during FY20	
Name of the Forum	Number of Meetings held
SBP BSC's Board of Directors	6
Audit Committee of the Board	5
Human Resources Committee of the Board	4
Publication Review Committee of the Board	1
Total	16

During FY20, amendments to the SBP BSC Ordinance, which were recommended during previous years, were incorporated and submitted for approval from concerned authorities of the Government of Pakistan (GoP). Furthermore, active coordination was maintained with all concerned departments / bodies of the GoP for seeking a swift approval for the Ordinance's revisions.

9.3.5 Head of Departments (HODs), Chief Managers (CMs) and Management Committees (MCs)

In order to promote collective decision-making by the senior management various meetings of the HODs forum, CMs forum and other Management Committees were arranged during the year through which the senior management communicated its vision and a future direction for SBP BSC with the HODs and CMs.

9.3.6 Systems and Procedures

During FY 20, swift support and resolution of 15,000 incidents resulted in seamless functionality in the area of T-24 banking, currency, ERP and CBA. The helpdesk teams of T-24 banking, currency, ERP and CBA also facilitated business departments during review of Business Requirement Documents (BRDs) and actively coordinated with ISD during development, testing, implementation of IT requirements and projects.

Table 9.3: Number of Helpdesk Incidents Raised and Resolved during FY19 and FY20		
Area	FY19	FY20
T24 Banking	10,662	10,491
T24 Currency	4,716	3,494
ERP and ELMS	-	1,603
Total	15,378	15,588

9.4 Developmental Initiatives

9.4.1 Digitization of Payments at SBP BSC

The digitization of organization's internal payments, in line with NPSS, was supported by ERP helpdesk through creation/updating of 3,621 payment profiles of suppliers/vendors and employees/retirees of SBP and SBP BSC following strict compliance with Standard Operating Procedures. Resultantly, all payments to serving / retired employees and vendors were made directly to their accounts through RTGS.

9.4.2 Deployment of Dashboards to Monitor Business Transactions

Various dashboards in T24 Banking and Currency were developed during the year to assist the management to monitor various business operations / transactions and enable them in taking timely and effective decisions.

9.4.3 Strengthening of Internal Controls of Systems and Procedures Units (SPUs) at Field Offices

To strengthen internal controls, minimize risk, ensure better supervision and enhance customer service, a detailed analysis of all incidents raised by all field offices was conducted. It was observed that there were several incidents for which field office level corrections were being performed at HOK while relying on the information provided by offices and in some cases without following standard approval mechanism at office level. Resultantly, 42 field office level corrections requiring verification of physical documents in T-24 banking and currency were transferred to SPUs at field offices while making authorization by middle management mandatory. This delegation has not only mitigated delays in incident resolution but has also strengthened monitoring and internal controls as the middle management of the field offices is now well aware of the errors committed by their officers thus ultimately reducing the number of operational errors in lieu of enhanced monitoring.

Moreover, bi-annual comprehensive User Access Review exercises were also carried out for all users across SBP BSC and advisories were issued to all concerned field offices on IT based audit observations issued by Internal Audit.

9.5 Future Outlook

Major initiatives planned for FY21 for the Strategic and Corporate Affairs function include development of SBP BSC Strategic Plan, timely execution of Business Planning process and its monitoring, and conducting of regular BPR exercises. Further, the function aims to strengthen System & Procedure Units (SPUs) at field offices, train the business planning coordinators, and formulate a robust compliance and governance framework across the organization. Another major objective for FY 21 is to enhance the usage of digital applications comprising of Knowledge Management's (KM) Electronic Content Management (ECM) and Internal Case Management (ICM) systems for effective communication, storage, and retrieval of information.

10. Financial Statements of SBP BSC

Audited Financial Statements of SBP BSC are presented which comprise the balance sheet as at 30th June 2020, profit and loss account, statement of comprehensive income, statement of change in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and State Bank of Pakistan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the SBP Banking Services Corporation (the Corporation), which comprise the balance sheet as at June 30, 2020, 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, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Other Matter

The financial statements of the Corporation for the year ended June 30, 2019 were audited by EY Ford Rhodes and KPMG Taseer Hadi & Co. who had expressed an unmodified opinion thereon vide their report dated October 24, 2019.

The engagement partners on the audit resulting in this independent auditor's report are **Salman Hussain (A.F. FERGUSON & CO.) and Mohammad Mahmood Hussain (KPMG TASEER HADI & CO.)**.

A.F. FERGUSON & CO
Chartered Accountants
Karachi

Dated: 27 October, 2020
Karachi

KPMG TASEER HADI & Co.
Chartered Accountants
Karachi

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2020

	Note	2020	2019		
		----- (Rupees in '000) -----			
ASSETS					
Current account with the State Bank of Pakistan		52,124,619	44,969,274		
Investments	6	550,774	517,552		
Employee loans	7	8,899,704	9,605,805		
Advances, deposits and prepayments	8	58,811	60,410		
Medical and stationery consumables	9	311,241	247,357		
Property and equipment	10	1,191,228	833,556		
Total assets		63,136,377	56,233,954		
LIABILITIES					
Deposits and other liabilities	11	5,477,757	4,939,574		
Deferred liabilities - unfunded staff retirement benefits	12	56,658,620	50,294,380		
Total liabilities		62,136,377	55,233,954		
Net assets		1,000,000	1,000,000		
REPRESENTED BY:					
Share capital	13	1,000,000	1,000,000		
CONTINGENCIES AND COMMITMENTS	14				

The annexed notes from 1 to 24 form an integral part of these financial statements.

Muhammad Ashraf Khan
 Managing Director

Shaukat Zaman
 Group Head
 Network and Financial Management

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019
		-----(Rupees in '000)-----	
Discount and interest earned	15	66,717	45,295
Net operating expenses	16	18,113,651	14,548,477
Reimbursable from the State Bank of Pakistan	16	(8,249,267)	(8,060,641)
Allocated to the State Bank of Pakistan:			
- Credit loss on employee loans	7.2 & 16	29	(121)
- Others	16	(9,864,413)	(6,487,715)
Operating profit		66,717	45,295
Gain on disposal of property and equipment		2,623	9,084
Profit for the year		69,340	54,379

The annexed notes from 1 to 24 form an integral part of these financial statements.

Muhammad Ashraf Khan
 Managing Director

Shaukat Zaman
 Group Head
 Network and Financial Management

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019
		-----(Rupees in '000)-----	
Profit for the year		69,340	54,379
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
(Loss) / gain on remeasurements of defined benefit plans	16.3.4.1	(6,297,792)	6,038,910
Allocated to the State Bank of Pakistan		6,297,792	(6,038,910)
Total comprehensive income for the year		<u>69,340</u>	<u>54,379</u>

The annexed notes from 1 to 24 form an integral part of these financial statements.

Muhammad Ashraf Khan
 Managing Director

Shaukat Zaman
 Group Head
 Network and Financial Management

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2020

	Share capital	Unappropriated profit	Total
	----- (Rupees in '000)-----		
Balance as at July 1, 2018	1,000,000	-	1,000,000
Profit for the year	-	54,379	54,379
Other comprehensive income for the year	-	-	-
Total comprehensive income	-	54,379	54,379
Transaction with the owner			
Total comprehensive income for the year transferred to the State Bank of Pakistan	-	(54,379)	(54,379)
Balance as at June 30, 2019	1,000,000	-	1,000,000
Profit for the year	-	69,340	69,340
Other comprehensive income for the year	-	-	-
Total comprehensive income	-	69,340	69,340
Transaction with the owner			
Total comprehensive income for the year transferred to the State Bank of Pakistan	-	(69,340)	(69,340)
Balance as at June 30, 2020	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>

The annexed notes from 1 to 24 form an integral part of these financial statements.

Muhammad Ashraf Khan
 Managing Director

Shaukat Zaman
 Group Head
 Network and Financial Management

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019
		----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after adjustment of non-cash items	17	24,596	41,740
Total comprehensive income for the year transferred to State Bank of Pakistan		(69,340)	(54,379)
Income on Government securities received during the year		27,301	40,689
		(17,443)	28,050
Decrease / (increase) in assets			
Current account with the State Bank of Pakistan - excluding depreciation expense in respect of staff retirement benefits and compensated absences		87,938	724,092
Medical and stationery consumables		(63,884)	(57,023)
Employee loans		706,101	(454,051)
Advances, deposits and prepayments		1,599	39,955
(Decrease) / increase in liabilities			
Deposits and other liabilities		(75,400)	(5,895)
Net cash generated from operating activities		638,911	275,128
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		(18,402)	(33,267)
Capital expenditure		(623,467)	(257,554)
Proceeds from disposal of property and equipment		2,958	15,693
Net cash used in investing activities		(638,911)	(275,128)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

The annexed notes from 1 to 24 form an integral part of these financial statements.

Muhammad Ashraf Khan
 Managing Director

Shaukat Zaman
 Group Head
 Network and Financial Management

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

1 STATUS AND NATURE OF OPERATIONS

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

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

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

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

2 STATEMENT OF COMPLIANCE

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

3 BASIS OF MEASUREMENT

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

3.2 The financial statements are presented in Pakistani Rupees which is the Corporation's functional and presentation currency and rounded to the nearest thousand rupees.

3.3 Use of estimates and judgments

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

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

3.3.1 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and sources of estimation are disclosed in note 16.3.2 to these financial statements.

3.3.2 Useful life and residual value of property and equipment

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. Rates of depreciation are given in note 10.1. There was a change in this estimate during the current year, the details of which are disclosed in note 4 to these financial statements.

3.3.3 Provision against obsolete medical and stationery consumables

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

3.3.4 Expected credit losses

The expected credit losses (ECL) allowance is based on the credit losses expected to arise over the life of the asset [the lifetime expected credit loss (LTECL)], unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in 5.1.3.1. The Corporation's policies for determining if there has been a significant increase in credit risk is set out in note 19.1.4.

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

There are certain new and amended standards and interpretations that are mandatory for the accounting period beginning on or after July 1, 2019, but are considered not to be relevant or do not have any significant effect on the Corporation's operations and are, therefore, not disclosed in these financial statements.

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

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

Standards	Effective date (annual periods beginning on or after)
	January 1, 2020 and
- IAS 1, 'Presentation of financial statements' (amendments)	July 1, 2022
- IAS 8, 'Accounting policies, changes in accounting estimates and errors' (amendments)	July 1, 2020
- IAS 16, 'Property, plant and equipment' (amendments)	July 1, 2022
- IAS 37, 'Provisions, contingent liabilities and contingent assets' (amendments)	July 1, 2022

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

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

4 CHANGE IN ACCOUNTING ESTIMATE

During the year, the management of the Corporation has revised its estimate of the useful life of lifts, chillers, generators, transformers, fire suppression system and bank notes processing and authentication system (BPAS) under the category of office equipment and machinery. Previously, assets under the above categories were depreciated over 5 years and now these are depreciated over the useful life of 10 years.

The revision has been accounted for as a change in accounting estimate in accordance with the requirements of International Accounting Standards (IAS) 8 'Accounting policies, changes in accounting estimates and errors'. Had the revision in useful lives of these assets not been made, the depreciation expense for the year would have been higher by Rs. 58.111 million and consequently profit before tax would have been lower by the same amount.

5 SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Financial assets and financial liabilities

5.1.1 Classification

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

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

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

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

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

5.1.2 Financial assets at amortised cost

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

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

After initial measurement, these financial instruments are subsequently measured at amortised cost using the effective interest rate (EIR), less impairment in accordance with 5.1.3 below.

5.1.3 Impairment of financial instruments

5.1.3.1 Overview of the ECL principles

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset [(the lifetime expected credit loss (LTECL)], unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Corporation's policies for determining if there has been a significant increase in credit risk is set out in note 19.1.4 to these financial statements.

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

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

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

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

- stage 1: when financial instruments are first recognised, the Corporation recognises an allowance based on 12mECL. Stage 1 financial instruments also include facilities where the credit risk has improved and the loan has been reclassified from stage 2.
- stage 2: when a financial instrument has shown a significant increase in credit risk since origination, the Corporation records an allowance for the LTECL. Stage 2 financial instruments also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- stage 3: financial assets considered credit-impaired (as outlined in note 19.1.1). The Corporation records an allowance for the LTECL.

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

5.1.3.2 Calculation of ECL

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

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

- PD Probability of default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. EAD is further explained in note 19.1.2.
- LGD Loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of EAD. LGD is further explained in note 19.1.3.

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

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

The mechanics of the ECL method are summarised below:

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

5.1.3.3 Forward looking information

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

5.1.4 Derecognition of financial assets and financial liabilities

a) Financial assets

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

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

b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability, and the difference in the respective carrying amount is recognised in the profit and loss account unless the modification does not result in a significant difference between the carrying amount of the original liability and the present value of revised future cash outflows discounted by the original EIR. If such difference is insignificant, the original liability is not derecognised and gain / loss on modification is recognised in the profit and loss account on such modification.

5.1.5 Fair value measurement principles

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

5.1.6 Offsetting of financial assets and financial liabilities

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

5.2 Employee loans

These are initially recognized at fair value and subsequently carried at amortised cost less estimates made for any impairment loss measured in accordance with note 5.1.3 above.

5.3 Medical and stationery consumables

Medical and stationery consumables are valued at weighted average cost.

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

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

5.4 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 10.1 to the financial statements, whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation on additions is charged to the profit and loss account from the month in which the asset is available for use while no depreciation is charged in the month in which the asset is disposed off.

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

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

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

5.5 Capital work-in-progress

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

5.6 Impairment of non-financial assets

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

5.7 Compensated absences

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

5.8 Staff retirement benefits

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

- a) an un-funded contributory provident fund (the old scheme) for transferred employees who joined the SBP prior to 1975 and opted to remain under the old scheme. The Corporation provided an option to employees covered under the old scheme to join the funded new contributory provident fund scheme - NCPF (new scheme) effective from July 1, 2010. Under this scheme, contribution is made by both the employer and employee at the rate of 6% of the monetised salary. Moreover, employees joining the Corporation service after July 1, 2010 are covered under the new scheme.
- b) an un-funded general contributory provident fund (new scheme) for transferred employees who joined SBP after 1975 or who had joined the SBP prior to 1975 but have opted for this new scheme. Under this scheme, contribution is made only by the employee at the rate of 5% of the monetised salary.
- c) the following other staff retirement benefit schemes:
 - an un-funded gratuity scheme (old scheme) for all employees other than the employees who opted for the new general contributory provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;
 - a funded New Gratuity Fund (NGF) which was introduced by the Corporation effective from July 1, 2010 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);
 - an un-funded pension scheme for those employees who joined the SBP after 1975 and before the introduction of NGF which is effective from July 1, 2010;
 - an un-funded contributory benevolent fund scheme;
 - an un-funded post retirement medical benefit scheme; and
 - six months post retirement benefit facility.

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

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected unit credit method". The most recent valuation in this regard has been carried out as at June 30, 2020. 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 16.3.2 to these financial statements.

5.9 Revenue recognition

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

5.10 Taxation

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

5.11 Provisions, contingent assets and contingent liabilities

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

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

Contingent liability is disclosed when:

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

5.12 Grants

Grants received on account of capital expenditure are recorded as deferred income and are amortised 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.

		Note	2020	2019
			-----(Rupees in '000)-----	
6 INVESTMENTS				
6.1	Amortised cost Market treasury bills	6.1 & 6.2	550,774	517,552
6.1 Market Treasury Bills carry mark-up ranging from 12.71% to 12.74% per annum (2019: 11.00 % to 12.68% per annum) and having maturity of October 22, 2020 and November 5, 2020 (2019: August 1, 2019 to August 15, 2019).				
6.2	The fair value of these investments as at June 30, 2020 is Rs. 559.86 million (2019: Rs. 525.42 million). Market treasury bills have been revalued on the basis of yields reported by Reuters (PKRV) for Government securities.	Note	2020	2019
7 EMPLOYEE LOANS				
Employees			8,906,806	9,612,936

		7.1	
7.1	Credit loss allowance	<u>(7,102)</u>	<u>(7,131)</u>
		7.2	
		<u>8,899,704</u>	<u>9,605,805</u>
7.1	This represents loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 18.250 million (2019: Rs. 24.608 million) that carrymark up at 10% per annum (2019: 10% per annum) on 62.5% of the loan amount. Maximum maturity of loans is up to year 2059 (2019: up to year 2058).		
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; and		
-	Computer and personal loans, given on personal guarantee of two employees of the Corporation.		
		Note	2020
7.2	Credit loss allowance		-----(Rupees in '000)-----
	Opening balance	7,131	7,715
	Adjustment of initial application of IFRS 9	-	248
		7,131	7,963
	Reversals during the year - net	(29)	(832)
	Closing balance	7,102	7,131
8	ADVANCES, DEPOSITS AND PREPAYMENTS		
	Prepayments	40,948	42,116
	Advances and deposits	8,116	8,994
	Others	9,747	9,300
		58,811	60,410
9	MEDICAL AND STATIONERY CONSUMABLES		
	Medicines	143,416	128,531
	Stationery	35,936	17,925
	Engineering	37,643	38,386
	Others	95,505	63,789
	Provision against obsolete items	9.1	248,631
		312,500	(1,274)
		(1,259)	247,357
9.1	Provision against obsolete items		
	Opening balance	1,274	8,504
	Reversals during the year - net	(15)	(7,230)
	Closing balance	1,259	1,274
10	PROPERTY AND EQUIPMENT		
	Operating fixed assets	10.1	913,497
	Capital work-in-progress	10.2	277,731
			1,191,228
			833,556

10.1 Operating fixed assets

The following is a statement of operating fixed assets:

	Furniture and fixtures	Office equipment and machinery	Electronic data and processing equipment	Motor Vehicles	Total
As at 01 July 2018					
Cost	93,370	1,740,549	568,739	214,523	2,617,181
Accumulated depreciation	(48,655)	(1,080,743)	(461,829)	(130,961)	(1,722,188)
Net book value	44,715	659,806	106,910	83,562	894,993
Year ended 30 June 2019					
Opening net book value	44,715	659,806	106,910	83,562	894,993
Additions	15,201	151,929	1,020	87,749	255,899
Disposals					
Cost	(1,234)	(5,265)	(3,881)	(18,830)	(29,210)
Accumulated Depreciation	1,234	5,265	3,721	12,744	22,964
	-	-	(160)	(6,086)	(6,246)
Transferred (to) / from SBP					
Cost	-	-	-	3,255	3,255
Accumulated Depreciation	-	-	-	(1,600)	(1,600)
	-	-	-	1,655	1,655
Depreciation charge	(8,291)	(210,742)	(54,356)	(39,356)	(312,745)
Net book value	51,625	600,993	53,414	127,524	833,556
As at 30 June 2019					
Cost	107,337	1,887,213	565,878	286,697	2,847,125
Accumulated depreciation	(55,712)	(1,286,220)	(512,464)	(159,173)	(2,013,569)
Net book value	51,625	600,993	53,414	127,524	833,556
Year ended 30 June 2020					
Opening net book value	51,625	600,993	53,414	127,524	833,556
Additions	16,817	102,262	17,401	24,910	161,390
Transfers from capital work in progress	-	182,908	-	-	182,908
Disposals					
Cost	(532)	(33,028)	(36,599)	(21,979)	(92,138)
Accumulated Depreciation	532	33,025	36,599	21,647	91,803
	-	(3)	-	(332)	(335)
Transferred (to) / from SBP					
Cost	-	(2,792)	-	3,277	485
Accumulated Depreciation	-	2,792	-	(1,839)	953
	-	-	-	1,438	1,438
Depreciation charge	(9,646)	(172,409)	(36,016)	(47,389)	(265,460)
Net book value	58,796	713,751	34,799	106,151	913,497

As at 30 June 2020					
Cost	123,622	2,136,563	546,680	292,905	3,099,770
Accumulated depreciation	(64,826)	- (1,422,812)	- (511,881)	- (186,754)	(2,186,273)
Net book value	58,796	713,751	34,799	106,151	913,497
Annual rate of depreciation	<u>10%</u>	<u>10% -20%</u>	<u>33.33%</u>	<u>20%</u>	

10.2 Capital work-in-progress	Note	2020	2019
-----(Rupees in '000)-----			

The following is a statement of capital work in progress

Opening as at 1 July			
Office equipment		-	-
Additions		460,639	-
Transferred to operating fixed assets		(182,908)	-
Closing as at 30 June	10.2.1	277,731	-
		<u>277,731</u>	<u>-</u>

10.2.1 CWIP balance pertains to three Banknote Disintegration Systems (BDS) at field offices of the Corporation. One system has been capitalised during the year while other three are expected to be capitalised in the upcoming financial year.

11. DEPOSITS AND OTHER LIABILITIES	Note	2020	2019
-----(Rupees in '000)-----			

Provision for employees' compensated absences	16.3.10	4,540,825	3,927,242
Deposits		363,825	290,716
Others		573,107	721,616
		<u>5,477,757</u>	<u>4,939,574</u>

12. DEFERRED LIABILITIES - UNFUNDED STAFF

RETIREMENT BENEFITS

Gratuity		7,588	4,733
Pension		34,716,029	30,688,317
Benevolent fund scheme		880,302	745,023
Post retirement medical benefits		20,372,554	18,100,363
Six months post retirement benefits		127,149	135,210
	16.3.4	<u>56,103,622</u>	<u>49,673,646</u>
Provident fund scheme		554,998	620,734
		<u>56,658,620</u>	<u>50,294,380</u>

13. SHARE CAPITAL

2020 (Number of shares)	2019 (Number of shares)	Authorised share capital Ordinary shares of Rs. 1,000,000 each	2020 -----(Rupees in '000)-----	2019
1,000	1,000		1,000,000	1,000,000
		Issued, subscribed and paid-up share capital		
		Fully paid-up ordinary shares of Rs. 1,000,000 each		
509	509	- issued for cash	509,000	509,000
491	491	- issued against consideration in kind	491,000	491,000
1,000	1,000		1,000,000	1,000,000

14. CONTINGENCIES AND COMMITMENTS

14.1 Contingencies

Claims against the Corporation not acknowledged as debts	14.1.1	161,381	2,864

14.1.1 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	2020 -----(Rupees in '000)-----	2019
14.2 Commitments			
Capital commitments	14.2.1 & 14.2.2	2,200,887	235,684

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

14.2.2 This includes payment to be made for bank notes disintegration system and bank notes processing and authentication system amounting to PKR 0.323 billion (€1.719 million) and PKR 1.773 billion (€9.413 million) respectively.

15. DISCOUNT AND INTEREST EARNED

2020
-----(Rupees in '000)-----

Interest income on government securities	65,867	44,244
Interest on employee loans	850	1,051
	66,717	45,295

16. NET OPERATING EXPENSES

2020
-----(Rupees in '000)-----

<i>Reimbursable from the State Bank of Pakistan</i>		
Salaries, wages and other benefits	6,017,811	5,931,240

Rent and taxes		48,569	42,714
Insurance		21,761	17,905
Electricity, gas and water		424,156	391,813
Repair and maintenance		319,596	336,502
Auditors' remuneration	16.1	10,800	8,812
Legal and professional		9,027	15,188
Travelling		22,091	29,966
Daily expenses		39,040	50,058
Passages / rest and recreational allowance		318,520	293,380
Fuel		5,730	4,523
Conveyance		18,826	21,127
Postages and telephone		17,359	17,521
Training	16.2	215,678	100,411
Remittance of treasure		180,119	174,077
Stationery		24,692	33,462
Books and newspapers		1,862	2,565
Advertisement		14,908	19,391
Bank guards charges		209,879	198,601
Uniforms		35,086	34,436
Others		293,757	336,949
		8,249,267	8,060,641

Allocated to the State Bank of Pakistan

Credit loss on employee loans		(29)	121
Others			
Retirement benefits and employees' compensated absences	16.3.1	9,598,953	6,174,970
Depreciation	10.1	265,460	312,745
		9,864,413	6,487,715
		18,113,651	14,548,477

16.1 Auditors' remuneration

	2020			2019		
	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.	Total	EY Ford Rhodes	KPMG Taseer Hadi & Co.	Total
----- (Rupees in '000) -----						
Audit fee	3,570	3,570	7,140	2,915	2,915	5,830
Out of pocket expenses	1,430	1,430	2,860	1,165	1,165	2,330
Sindh sales tax on services	400	400	800	326	326	652
	5,400	5,400	10,800	4,406	4,406	8,812

- 16.2** This includes Rs. 201.008 million relating to NIBAF representing reimbursement of training expenses relating to employees of the Corporation.
- 16.3 Staff retirement benefits**
- 16.3.1** Charge for the year in respect of defined contribution plan amounted to Rs. 231.752 million (2019: Rs. 96.336 million).
- 16.3.2** During the year the actuarial valuations of the defined benefit obligations were carried out under the Projected Unit Credit Method using following significant assumptions:

	2020	2019
- Discount rate for year end obligation	9.25% p.a.	14.25% p.a.
- Salary increase rate (where applicable)	FY 2020:8% p.a. plus 12% additional on alternate years from July 2021 onwards	15% p.a.
- Pension increase rate (where applicable)	7.25% p.a.	8.5% p.a.
- Medical cost increase rate (where applicable)	9.25% p.a.	14.25% p.a.
- Normal retirement age	60 years	60 years

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

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

Discount rate risk

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

Salary increase / inflation risk

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

Mortality risk

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

Withdrawal risk

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

Pension increase risk

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

16.3.4 Change in present value of defined benefit obligation

2020					
Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total

-----Rupees in '000-----

Present value of defined benefit obligation as on July 1, 2019	30,688,317	4,733	18,100,363	745,023	135,210	49,673,646
Current service cost	568,887	492	444,676	1,248	9,811	1,025,114
Interest cost on defined benefit obligation	3,900,269	674	2,533,767	99,589	14,007	6,548,306
Benefits paid	(6,636,017)	-	(639,089)	(92,305)	(73,825)	(7,441,236)
Liability transferred from the SBP	-	-	-	-	-	-
Remeasurements:						
Actuarial losses / (gains) from changes in financial assumptions	6,194,573	1,689	(67,163)	126,747	41,946	6,297,792
Present value of defined benefit obligation as on June 30, 2020	34,716,029	7,588	20,372,554	880,302	127,149	56,103,622

2019					
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total

-----Rupees in '000-----

Present value of defined benefit obligation as on July 1, 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

16.3.5 Amount recognised in the profit and loss account

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

	2019				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
-----Rupees in '000-----					
Current service cost	633,407	431	389,380	2,738	8,673
Interest cost on defined benefit obligation	3,171,769	357	1,423,598	80,020	11,113
	3,805,176	788	1,812,978	82,758	19,786
	5,721,486				

16.3.6 Movement of present value of defined benefit obligation

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

	2019				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
-----Rupees in '000-----					
Net recognised liabilities at July 1, 2018	37,044,817	3,966	16,056,121	941,469	123,475
Amount recognised in the profit and loss account	3,805,176	788	1,812,978	73,057	19,786
Remeasurements	-	21	701,087	(174,670)	9,498
Benefits paid during the year	6,555,808	-	-	-	6,038,910
Employees contribution	3,605,868	-	476,742	(104,712)	-
Liability transferred from the SBP	-	-	6,919	9,701	-
Net recognised liabilities at June 30, 2019	30,688,317	4,733	18,100,363	745,023	135,210
	49,673,646				

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

Impact on defined benefit obligation - increase / decrease		
Change in assumption	Increase in assumption	Decrease in assumption
%	-----(Rupees in '000)-----	
Pension		
Discount rate	1	(945,194) 4,572,616
Salary increase rate	1	2,755,832 596,105
Pension increase rate	1	4,222,819 880,794
Expected mortality rates	1 Year	386,397 (384,033)
Gratuity scheme		
Discount rate	1	(152) 158
Salary increase rate	1	187 (183)
Post retirement medical benefits		
Discount rate	1	(2,346,500) 2,894,903
Medical cost increase rate	1	2,906,026 (2,382,583)
Salary increase rate		
Expected mortality rates		
Benefvolent fund scheme		
Discount rate	1	(34,876) 38,429
Six months post retirement facility		
Discount rate	1	5,605 (6,079)
Salary increase rate	1	7,302 18,986

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.

16.3.8 Duration of defined benefit obligation

Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
Weighted average duration of the defined benefit obligation	7.6 years	2 years	13 years	4.2 years

16.3.9 Estimated expenses to be charged to the profit and loss account for the year ending June 30, 2021

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2021 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	620,989	750	445,424	2,280	8,004
Interest cost on defined benefit obligation	3,232,295	739	1,833,592	75,053	11,882
Amount chargeable to the profit and loss account	3,853,284	1,489	2,279,016	77,333	19,886
					6,231,008

16.3.10 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 4,540.825 million (2019: Rs. 3,927.242 million). An amount of Rs. 1,711.804 million (2019: Rs.366.919 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, 2021 would be Rs. 532.400 million. The benefits paid during the year amounted to Rs. 1,098.221 million (2019: Rs. 502.214 million). In case of 1% increase / decrease in discount rate, the net charge for the year would decrease / increase by Rs. 145.971 million and Rs. 158.670 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. 221.137 million and Rs. 276.414 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employee's compensated absences is 3.4 years.

17	PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS	2020		2019
		(Rupees in '000)		
	Profit before tax	69,340		54,379
	Adjustments for:			
	Accrued interest income on Government securities	(42,121)		(3,555)
	Gain on disposal of property and equipment	(2,623)		(9,084)
		(44,744)		(12,639)
		24,596		41,740

18 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 16).

The transactions and balances with related parties are as follows:

	2020	2019
	(Rupees in '000)	
Associated undertaking - National Institute of Banking and Finance		
(Guarantee) Limited - subsidiary of the parent entity		
Balances at the year end - transferred to the State Bank of Pakistan		
Payable against training programs	122,474	9,503
Transactions during the year - reimbursable from the State Bank of Pakistan		
Training expense charged during the year	201,008	72,176

19 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 19.1 to 19.6 to these financial statements. The Corporation has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Managing Director on the monitoring and management of these risks.

19.1 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 or 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.

19.1.1 Definition of default

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

Quantitative criteria

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

Qualitative criteria

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

19.1.2 Exposure at default

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

19.1.3 Loss given default

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

19.1.4 Significant increase in credit risk

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

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

19.2 Concentration of risk

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

19.2.2 Industrial analysis

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

	2019		
	Sovereign	Others	Grand Total
Financial assets	----- (Rupees in '000) -----		
Current account with the State Bank of Pakistan	44,969,274	-	44,969,274
Investments	517,552	-	517,552
Employee loans	-	9,605,805	9,605,805
Advances and deposits	-	18,294	18,294
	45,486,826	9,624,099	55,110,925

19.2.3 Credit exposure by credit rating:

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

	2020		
	Sovereign (19.2.3.1)	Unrated	Grand total
Financial Assets	----- (Rupees in '000) -----		
Current account with the State Bank of Pakistan	52,124,619	-	52,124,619
Investments	550,774	-	550,774
Employee loans	-	8,899,704	8,899,704
Advances and deposits	-	17,863	17,863
	52,675,393	8,917,567	61,592,960

	2019		
	Sovereign (19.2.3.1)	Unrated	Grand total
Financial Assets	----- (Rupees in '000) -----		
Current account with the State Bank of Pakistan	44,969,274	-	44,969,274
Investments	517,552	-	517,552
Employee loans	-	9,605,805	9,605,805
Advances and deposits	-	18,294	18,294
	45,486,826	9,624,099	55,110,925

19.2.3.1 Government securities and balances are rated as sovereign. The international credit rating of Pakistan is B3 (2019: B3) as per Moody's.

19.3 Details of financial assets impaired and provisions recorded there against

		Gross amount		Impairment / provision
		2020	2019	2020
		(Rupees in '000)		
Employee loans		7,102	7,131	7,102

19.4 Liquidity analysis with interest rate risk

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

2020							
Interest / markup rate	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	52,124,619	-	52,124,619	52,124,619
Investments	12.71% - 12.74%	508,653	-	508,653	42,121	-	550,774
Employee loans	10%	-	18,253	18,253	73,892	8,807,559	8,881,451
Advances and deposits	-	-	-	8,116	9,747	17,863	17,863
	508,653	18,253	526,906	52,248,748	8,817,306	61,066,054	61,592,960
Financial liabilities							
Deposits and other liabilities	-	-	-	936,932	-	936,932	936,932
On balance sheet gap	508,653	18,253	526,906	51,311,816	8,817,306	60,129,122	60,656,028
Off balance sheet gap							
Total yield / interest risk sensitivity gap	508,653	18,253	526,906	51,311,816	8,817,306	60,129,122	60,656,028
Cumulative yield / interest risk sensitivity gap	508,653	526,906					

Interest / markup rate	2019						
	Interest / mark-up bearing			Non interest / mark-up bearing			Total
Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total		
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	44,969,274	-	44,969,274	44,969,274
Investments	11% - 12.68%	513,997	-	513,997	3,555	-	517,552
Employee loans	10%	794	23,275	24,069	185,120	9,395,616	9,581,736
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
Off balance sheet gap							
Total yield / interest risk sensitivity gap	514,791	23,275	538,066	44,154,917	9,405,610	53,560,527	54,098,593
Cumulative yield / interest risk sensitivity gap	514,791	538,066					

*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.

19.5 Currency risk management

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

19.6 Liquidity risk management

Liquidity risk is the risk that the Corporation will encounter difficulties in raising funds to meet commitments associated with the financial instruments. The Corporation believes that it is not exposed to any significant level of liquidity risk as all its settlements are routed through the State Bank of Pakistan. The maturity profile of the Corporation's financial assets and financial liabilities are given in note 19.4 to these financial statements.

20 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

The carrying amounts of all the financial assets and financial liabilities are considered to be reasonable approximation of fair value except for investments carried at amortised cost whose fair value is disclosed in note 6.2 to these financial statements which have been valued under level 2. These are carried at amortised cost in accordance with the Corporation's policy.

21 CLASSIFICATION OF FINANCIAL INSTRUMENTS

2020	
Amortised cost	Total
-----(Rupees in '000)-----	

Financial assets

Current account with the State Bank of Pakistan	52,124,619	52,124,619
Investments	550,774	550,774
Employee loans	8,899,704	8,899,704
Advances and deposits	17,863	17,863
	61,592,960	61,592,960

2019	
Amortised cost	Total
----- (Rupees in '000) -----	

Financial assets

Current account with the State Bank of Pakistan	44,969,274	44,969,274
Investments	517,552	517,552
Employee loans	9,605,805	9,605,805
Advances and deposits	18,294	18,294
	55,110,925	55,110,925

	2020	2019
	-----(Rupees in '000)-----	
Financial liabilities - at amortised cost		
Deposits and other liabilities	936,932	1,012,332

22 CORRESPONDING FIGURES

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

23 GENERAL

23 Rounding off

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

23 Effects of COVID-19 pandemic

On March 1, 2020, the World Health Organisation made an assessment that the outbreak of a coronavirus (COVID-19) can be characterised as a pandemic. As a result, businesses have subsequently been affected amongst others with temporary suspension of travel, and closure of recreation and public facilities.

To alleviate the negative impact of the COVID-19 pandemic, the Government, Central Banks including financial institutions affiliated to those banks, regulators have taken measures and issued directives to support businesses, including extensions of deadlines, facilitating continued business through social-distancing and easing pressure on credit and liquidity in the market.

The Corporation has made an assessment in order to evaluate the impact of COVID-19 pandemic over the business, operations and profitability of the Corporation as well as a going concern assessment. As a result of such assessment, the management has not identified any adverse impact on the profitability, liquidity and continuity of the Corporation due to COVID-19 pandemic situation.

24 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 26th October 2020 by the Board of Directors of the Corporation.

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head
Network and Financial Management

11. List of Acronyms

AD	Authorized Dealer
ADB	Asian Development Bank
ADC	Alternate Delivery Channel
AGP	Accountant Generals of Provinces
AGPR	Accountant General Pakistan Revenues
AJK	Azad Jammu and Kashmir
AML	Anti-Money Laundering
APBUMA	All Pakistan Bedsheets & Upholstery Manufacturers Association
ATM	Automated Teller Machine
B2G	Business to Government
BAFL	Bank Alfalah Limited
BDS	Banknote Destruction System
BMR	Balancing, Modernization and Replacement
BPAS	Banknote Processing and Authentication System
BPM	Balance of Payments Manual
BPR	Business Process Re-engineering
BRD	Business Requirement Document
CAAF	Controller Accounts Air Force
CBA	Collective Bargaining Agent
CDD	Customer Due Diligence
CDNS	Central Directorate of National Savings
CFT	Combating the Financing of Terrorism
CGS	Credit Guarantee Schemes
CIC	Currency-in-Circulation
CIT	Cash in Transit
CMA	Controller of Military Accounts
CMH	Cash Monitoring Hub
CMS	Currency Management Strategy
CMT	Corporate Management Team-SBP
CNA	Controller of Naval Accounts
CNIC	Computerized National Identity Card
CNS	Countertop Note Sorting
COVID	Corona Virus Disease
CRR	Cash Reserve Requirement
CTR	Currency Transaction Report
DAIBP	Diploma Associate Institute of Bankers Pakistan
DAP	Data Acquisition Portal
DDT	Duty Drawback of Taxes
DFI	Development Finance Institutions
DFID	Department for International Development

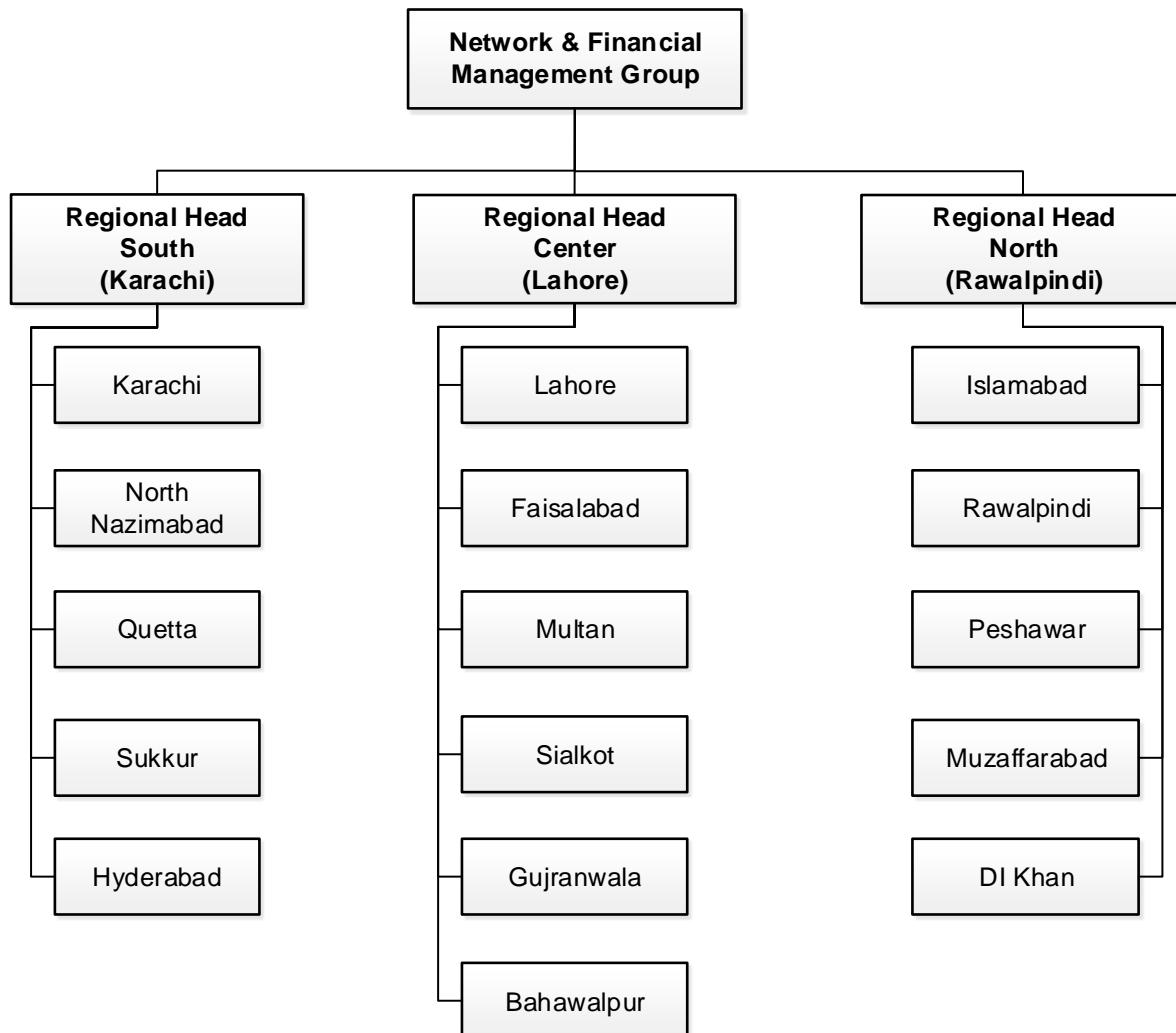
DLTL	Drawback of Local Taxes and Levies
DNS	Desktop Note Sorting
DSC	Defence Saving Certificate
EAP	Export Advance Payment
EC	Exchange Companies
ECM	Electronic Content Management
EDD	Enhanced Due Diligence
EDI	Electronic Data Interchange
EE	Export Earnings
EF	Export Finance
EFE	Electronic Form E
EFS	Export Finance Scheme
EFT	Electronic Fund Transfer
EIF	Electronic Import Form
EIP	Exporter's Information Portal
ELMS	Executive Letter Management System
EORS	Export Overdue Reporting System
EPD	Exchange Policy Department
ERD	External Relations Department
ERP	Enterprise Resource Planning
EXIM	Export Import
FATF	Financial Action Task Force
FBR	Federal Board of Revenue
FCY	Foreign Currency
FEA	Foreign Exchange Adjudication
FERA	Foreign Exchange Regulation Act
FERAB	Foreign Exchange Regulation Appellate Board
FFSAP	Financing Facility for Storage of Agricultural Produce
FGM	Focus Group Meetings
FIA	Federal Investigation Agency
FIIP	Financial Inclusion & Infrastructure Project
FSRE	Financing Scheme for Renewable Energy
HBL	Habib Bank Limited
HRC	Human Resource Committee of the SBP BSC Board
HRD,	Human Resource Department SBP
HVAC	Heating, Ventilation, and Air Conditioning
IB	Intelligence Bureau
IBA	Institute of Business Administration
IBI	Islamic Banking Institution
ICI	Imperial Chemical Industries
IDB	Islamic Development Bank
IERS	Islamic Export Refinance Scheme

IFC	International Finance Corporation
IFFSAP	Islamic Financing Facility for Storage of Agricultural Produce
IFRE	Islamic Financing Facility for Renewable Energy
ILTFF	Islamic Long Term Financing Facility
IMF	International Monetary Fund
IPPF	International Standards for the Professional Practice of Internal Auditing Framework
IRFCC	Islamic Refinance Facility for Combating COVID-19
ISD	Information System Department
ITG	Information Technology Group
ITRS	International Transaction Reporting System
KM	Knowledge Management
KPMG	Klynveld Peat Marwick Goerdeler
KPOGCL	Khyber Pakhtunkhwa Oil & Gas Company Limited
KYC	Know Your Customer
LAMS	Learning Activities Management System
LEA	Law Enforcement Agencies
LSD	Legal Services Department
LTFF	Long Term Financing Facility
MCB	Muslim Commercial Bank
MFI	Micro Finance Institution
MIS	Management Information System
NAB	National Accountability Bureau
NACTA	National Counter Terrorism Authority
NBFI	Non-Banking Financial Institutions
NBP	National Bank of Pakistan
NECOP	National Electronics Complex of Pakistan
NFLP	National Financial Literacy Program
NGO	Non-Government Organization
NIBAF	National Institute of Banking & Finance
NIC	Notes-in-circulation
NIFT	National Institutional Facilitation Technologies
NPB	National Prize Bond
NPSS	National Payments Systems Strategy
NSS	National Saving Scheme
NTN	National Tax Number
OCS	Office of the Corporate Secretary SBP
OSV	On-Site Verification Visits
OTC	Over the Counter
OTP	Officers Training Program
P2G	Public to Government
PCSIR	Pakistan Council of Scientific and Industrial Research

PET	Physical Efficiency Test
PFI	Participating Financial Institution
PMS	Performance Management System
PMYBL	Prime Minister's Youth Business Loan
PMYES	Prime Minister's Youth Entrepreneurship Scheme
PPB	Premium Prize Bonds
PPRA	Public Procurement Regulatory Authority
PSE	Public Sector Enterprise
PSPC	Pakistan Security Printing Corporation
PSTD	Pakistan Society for Training and Development
RAF	Risk Assessment Framework
RAS	Regulatory Approval System
RFCC	Refinance Facility for Combating COVID-19
RSP	Rural Support Program
RTGS	Real-Time Gross Settlement
RTO	Regional Tax Offices
SAMA	Saudi Arabian Monetary Authority
SEDF	Sindh Enterprise Development Fund
SGLA	Subsidiary General Ledger Account
SLR	Statutory Liquidity Requirement
SME	Small and Medium Enterprise
CGS SMF	Credit Guarantee Scheme for Small & Marginalized Farmers
SOP	Standard Operating Procedure
SPD	Strategic Planning Department
SPU	Systems and Procedures Units
CGS SRE	Credit Guarantee Scheme for Small & Rural Enterprises
SRO	Statutory Regulatory Orders
SSC	Special Saving Certificate
STR	Suspicious Transaction Report
TMS	Transaction Monitoring System
TNA	Training Needs Assessment
TOR	Terms of Reference
TOT	Training of Trainers
TPL	Trakker (Private) Limited
TRG	The Resource Group
UBL	United Bank Limited
UNSCR	United Nations Security Council Resolution
USAID,	United States Agency for International Development
VILT	Virtual Instructor Led Trainings
WFH	Work From Home
YPIP	Young Professional Induction Program

ANNEXURE

Organogram of Regions/Field offices





Banknote Destruction System (BDS) installed at Faisalabad Office, SBP BSC on 18th November 2019.