

Banking Supervision Department

Frequently Asked Questions (FAQs)

Q1. Which Department is involved in imposition of penalty on inspection reports?

Ans. Banking Supervision Department

Q2. Where can appeal for refund of penalty be made with regard to the penalty imposed on the basis of inspection report?

Ans. Enforcement Division- Banking Supervision Department

Q3. What is the procedure for refund of appeals?

Ans. Institutions are required to submit its request for processing of the appeal as per procedure laid down in BSD Circular No. 21 dated August 04, 2000 which can be assessed through SBP website.

Q4. What is the prescribed ratio of Statutory Liquidity Requirement (SLR)?

Ans. Statutory Liquidity Reserve (SLR) is governed under Section 29 of the BCO, 1962. Presently it is being monitored at 20% of the Total Demand & Time Liabilities of a Scheduled Bank. This 20% is comprised of 5% on account of Cash Reserve Requirement and 15% on account of Statutory Liquidity Requirement.

Q5. What are the components of liquid assets?

Ans. Following are the components of liquid assets:

1. Cash in Pakistan including foreign currency.
2. Balance with State Bank Pakistan (on account of 5% CRR)
3. Balance with NBP.
4. Unencumbered approved securities
5. Assigned capital of the foreign banks held in SBP.
6. Share of Khushali Bank held by commercial banks in Pakistan.

Q6. What are the approved securities for SLR?

Ans. In terms of Section 5a(ii) of the BCO, 1962 "Sub-Section (1) of the Section 29 includes such types of Pakistan rupee obligations of the Federal Govt. or a Provincial Govt. or of a Corporation wholly owned or controlled directly or indirectly, by the Federal Govt. or a Provincial Govt. and guaranteed by the Federal Govt. as the Federal Govt. may, by notification in the official gazette ,declare , to the extent determined from time to time, to be approved securities for the purposes of that sub-section"

Presently following securities fulfill the above criteria and are treated as approved securities for SLR purposes (for Scheduled Banks):

1. Central Govt. Loans as notified in the official gazette for the purposes
2. Provincial Govt. Loans as guaranteed by the Federal Govt. and notified in the official gazette for the purpose.
3. Treasury Bills
4. Federal Investment Bond
5. Pakistan Investment Bond (Equivalent to 5% of the TDL)
6. National investment Trust units (Registered)
7. KESC TFC.

Q7. Which provision of SBP Act governs Cash Reserve Requirement for banks?

Ans. Section 36(1) of SBP Act governs CRR for banks.

Q8. What is CRR nowadays?

Ans. Weekly Average CRR 5% subject to daily minimum of 4% w.e.f.16-12-2000.

Q9. What are CRA and SCRA requirements on FE-25 deposits?

Ans. The requirements are 5% CRA(cash reserve account) and 15% SCRA(special cash reserve account) in US\$ on FE-25 deposits.

Q10. What happened if a bank fails to maintain CRR, CRA, SCRA?

Ans. Monetary penalties are imposed on the defaulting banks under BCO.1962.

Q11. What is liquidity and cash reserve requirements for DFIs nowadays?

Ans. Liquidity requirement is 14% of the liabilities to be invested in approved securities and 1% cash reserve balance to be maintained with SBP.

Q12. Under what provisions of the law SBP maintains Panel of auditors?

Ans. SBP maintains a panel of auditors under the provisions of Section 35 of the Banking Companies Act, 1962. It aims that the banks may pick their auditors out of a quality lot that has enough of expertise and capacity to look into the accounts of the banks and add value to the checks and controls, in order to, promote stability of the banking industry.

Q13. How can a CA firm be listed on SBP Panel of Auditors?

Ans. Any CA firm interested in its listing on SBP Panel of Auditors can apply on the prescribed format of application, devised for this purpose and notified vide BSD Circular # 3 of February 24, 2003, which would be processed on its receipt at the SBP against an approved criteria and, if found eligible, would be enlisted in the category it qualifies for. The application form can be downloaded from SBP web lying with the above quoted circular i.e. by icons Notifications/Circulars Banking Supervision Department 2003 BSD Circular # 03 (Attachment).

Q14. What are the categories in the Panel of Auditors of SBP and what the purpose do they serve?

Ans. There are three categories namely 'A', 'B', & 'C'. Auditing Firms in **Category 'A'** are eligible to conduct audit of all Banks/DFIs while those in **Category 'B'** are eligible to conduct audit of the Banks/DFIs having total assets (net of contra items) up to Rs.50 billion or number of branches up to 99. Auditing Firms in **Category 'C'** are eligible to conduct audit of the Banks/DFIs having total assets (net of contra items) below Rs.5 billion or number of branches below 10.

Q15. What are the factors included in the criteria set for the enlistment on the SBP panel of auditors?

Ans. The approved criteria is based on parameters, broadly given in the application form, comprising audit experience, size of the firm, QCR from ICAP, affiliation with international Chartered Accountancy firm and System Audit experience & expertise.

Q16. Does SBP also maintain Panel of Valuers?

Ans. No. The Panel of Valuers is maintained by the Pakistan Banks Association (PBA). SBP only approves the criteria, developed by PBA for enlisting the valuers on their Panel of Valuers.

Q17. What are the relevant provisions of the law governing the annual accounts of the banks?

Ans. In the light of Section 34 of the BCO, 1962, the banks prepare their annual accounts in the forms set out in the Second Schedule of the Ordinance. As per section 36 of the BCO 1962, these annual accounts are published and submitted to SBP. According to the

Rule 14 of the Banking Companies Rules, 1963, the banks are also required to get their accounts published in the newspaper, which is in circulation at the place where the banking company has its principal office. The existing format for the annual accounts of the bank was circulated by the SBP vide BSD circular No.36 of October 10, 2001,

Q18. By what time the banks are required to submit their annual accounts to SBP?

Ans. Under the requirements of the Section 36 of BCO, 1962, every banking company should submit its prescribed published accounts to the SBP within three months of the end of the period to which these relate. However, SBP has the authority to extend this time under the special circumstances upto further three months.

Q19. What is Corporate Governance?

Ans. Corporate Governance is the system by which business corporations are directed and controlled by structuring rights and responsibilities of different participants in the corporation, such as, the board, managers, shareholders and stakeholders. By doing this, it provides structure for setting corporate objectives and mustering resources to attain those goals without compromising fairness, ethics, transparency, merit and accountability.

Q20. Why State Bank of Pakistan has an on-going interest in good corporate governance in banks?

Ans. Banks are critical components of an economy. They are custodians of public money. They provide financing for commercial enterprises, basic financial services and access to payments system. In addition, some banks are expected to make credit and liquidity available in difficult market conditions. Banks function only when depositors, borrowers, and the society have full confidence in the banking system and the sanctity of banking transactions. It is crucial, therefore, that banks have strong corporate governance and this is all State bank of Pakistan endeavors as a part of its supervisory activities.

Q21. What is Financial Risk Management?

Ans. Financial risk in a banking organization is the possibility that the outcome of an action or event could bring up adverse impacts. Such outcomes could either result in a direct loss of earnings / capital or may result in imposition of constraints on bank's ability to meet its business objectives. Such constraints pose a risk as these could hinder a bank's ability to conduct its ongoing business or to take benefit of opportunities to enhance its business.

Q22. Why Risk Management in Financial Institution is important.

Ans. No risk means no venture; more so, in the case of banking. Like other organization financial institutions also place capital at risk in pursuit of ventures, which are uncertain. The failure to adequately manage these risks exposes financial institutions not only to the possibility that they may suffer fraud, loan or other losses, but, more importantly, to the possibility that they may not achieve their strategic business objectives. In the worst case, inadequate risk management may result in circumstances so catastrophic in nature that financial institutions cannot remain in business. This has been the case with some financial institutions in the Pakistan that were previously thought of as well managed and profitable. The sheer complexity, volume and pace of transactions today demand that financial institutions evaluate their risks by reviewing the structure and effectiveness of their policies, procedures and controls.

Q23. Is there any report on the performance of the banking system of Pakistan?

Ans. Yes, the Banking Supervision Department prepares "Quarterly Performance Review

of the Banking System” which evaluates the financial soundness of the banking system. Besides being published, the reviews are also available on the State Bank’s website.

Q24. From where can I get the information on the non-performing loans of banks and DFIs?

Ans. The Banking Supervision Department compiles and analyzes the data of nonperforming loans of banks and DFIs. The information is also posted on State Bank’s web site, which is updated on quarterly basis.

Q25. When was CIB established?

Ans. CIB was established in 1992 under section 25-A of Banking Companies Ordinance, 1962.

Q26. What is the purpose of CIB?

Ans. The purpose of CIB is to collect credit data and disseminate the same to the financial institutions to facilitate them in their credit appraisal process.

Q27. Which type of data is collected/distributed by CIB?

Ans. Presently CIB collects data of borrowers of Rs 500,000 and above.

Q28. Who can get Credit Worthiness Report from CIB?

Ans. Only Financial Institutions i.e. Banks, DFIs, Non Banking Companies, and Modaraba Companies can get CIB reports on lines from CIB.

Q29. Does SBP consult individual borrower before placing its name on the CIB?

Ans. SBP issues intimation letters to borrowers against whom any financial institution has reported over due past 365 days for the first time.

Q30. How can Credit Worthiness Report be generated through CIB online system?

Ans. Authorized Persons of the financial institutions through their registered telephone numbers with the CIB can access the CIB Online server via dial up for generating the Credit Report of the desired party. The Enquiry system provides various options to the financial institutions for searching information of the desired borrowers under a strict protocol. They can search information about Individuals, Companies and Directors having association in one or more companies.

Q31. What are the requirements for accessing CIB on-line facilities?

Ans. For availing online facility of obtaining Credit Worthiness Reports, banks/DFIs/NBFCs are required to sign an agreement with SBP on the prescribed format and pay joining fee. SBP provides software, users ID, Passwords and user Trainings etc. to the member institution.

Q32. How Financial Institutions submit their credit information to CIB through online system?

Ans. Financial Institutions submit credit data of their borrowers of Rs 500, 000 and above through Data Capturing Software. The software provides facility to the Financial Institutions users to capture error free data on site and then submit it electronically to SBP via a dial up connection. The software application ensures that all the mandatory checks are applied at the time of data entry so that the data entered into the application should be complete and correct in all respects. The application can be installed at Head office and Zone/Branch levels but only the Head office is allowed to submit data to SBP. Other Zones/branches are only allowed to submit data to their Head office. The application provides extensive features for capturing data directly from the financial institutions internal systems in various file formats.

Q33. What is the purpose of Breakup utility in the Data Capturing Software?

Ans. The purpose of breakup utility is to help Financial Institutions (FIs) in converting credit data in old formats from their internal systems to the new CIB formats.