

STATE BANK OF PAKISTAN
Banking Control Department
Central Directorate
Karachi.

BCD Circular No. 26

26th November, 1984.

All banks and development finance institutions.

Dear Sirs,

**Elimination of 'Riba' from the Banking System-Rate
of service charge recoverable on finances provided
by way of lending other than "Qard-e-Hasana"**

Please refer to item (A) (i) of Annexure I to BCD Circular No. 13 dated the 20th June, 1984.

2. The maximum rate of service charge which a bank/development finance institution may recover on its loans other than "Qard-e-Hasana" during an accounting year shall be calculated by dividing the total of its expenses excluding cost of funds and expenditure relating to bad assets and income taxation by the mean of its total assets at the beginning and end of the year and rounding off the result to the nearest decimal of a percentage point. An illustration of this is given in the annexure.

3. A bank/DFI may recover service charge during an accounting year on the basis of the rate determined by it which shall be communicated by it to each of its branches, as also intimated to the State Bank at least a week before commencement of each accounting year. However, immediately after its accounts for an accounting year are audited, it shall work out the maximum rate at which service charge was recoverable during that accounting year on the basis of the methodology laid down in para 2 above and in case the rate so worked out is less than the rate determined for the year earlier, it shall refund the excess recoveries if any, to its clients concerned within one month of audit of the accounts. It shall also submit to the

State Bank for post-facto audit, within five months of the close of the accounting year, the rate worked out as above along with a certificate, in case the rate is lower than the one determined earlier for the year, to the effect that excess recoveries have been refunded to the clients concerned.

4. The above instructions are being issued under the Banking Companies Ordinance, 1962.

5. Please acknowledge receipt.

Yours faithfully,

(SIBGHATULLAH)

Director

Name of Bank_____

Maximum Rate of Service Charge recoverable for the year
ended_____

CALCULATION SHEET

(Figures in Million of Rs.)

For the above year

1. Total Expenditure (total income less balance of profit i.e. gross profit, as per audited Profit and Loss Account)	4,775
2. LESS:	
(i) Interest and return on deposits, borrowings, etc.	3,600
(ii) Income taxation and provision for it if charged to Expenses Account	50
(iii) Bad assets provision and write-offs by direct debit to Expenses Account	25
(iv) Total of (i) to (iii)	3,675
3. Administrative Expenditure (1 minus 2 (iv))	1,100
4. Total Assets at the beginning of the year.	29,000
5. Total assets at the end of the year	35,000
6. Average of the total assets at the beginning and end of the year	32,000

Service Charge in percentage terms to the nearest decimal point
(3 divided by 6 and multiplied by 100) $= \frac{1100 \times 100}{32,000} = 3.4\%$