

STATE BANK OF PAKISTAN
Banking Control Department
Central Directorate
Karachi.

BCD Circular No. 34

26th November, 1984

All Banks and development finance institutions.

Dear Sirs,

**Elimination of 'Riba' from the Banking System—
Determination of Rates of Profit on various Types
of PLS Liabilities of the banks and DFIs.**

In exercise of the powers vested in it under the Banking Companies Ordinance, 1962, the State Bank of Pakistan is pleased to direct that a banking company or development finance institution receiving PLS deposits shall declare rates of profit on various types of its PLS deposits on a half yearly basis for the half year ending 30th June and the half year ending 31st December each year after obtaining clearance from the State Bank in regard to the rates of profit proposed to be declared. The proposed rates should be worked out after compiling the relevant information in the enclosed proformae 'A', 'B', 'C', 'D' and 'E' which also give numerical illustrations for guidance in determining the rates. Proposals alongwith information in the aforesaid proformae in regard to the rates proposed to be declared for each half year shall be submitted to the State Bank by the 20th of the month succeeding the half year.

2. As explained in the proforma 'E' enclosed, while distributing non-interest income in the manner spelt out therein, the following weightages will be given to PLS deposits, PLS borrowings and equity:-

Type and Maturity	Weightage to be given
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A. DEPOSITS:

I. Special notice deposits:

- | | |
|---|------|
| (i) Withdrawal at 7 to 29 days' notice: | 0.65 |
| (ii) Withdrawal at notice of 30 days or over: | 0.75 |

Type and Maturity	Weightage to be given
II. Savings accounts:	1.00
III. PLS Call Deposits from other banks:	Weightage as agreed to by the banks concerned.
IV. Term deposits:	
(i) For terms upto and inclusive of 6 months:	1.00+0.05 for each month of the term of the deposit.
(ii) For terms in excess of 6 months:	1.3 for the first six months plus 0.01 for each subsequent month of the term of the deposit, subject to a maximum of 2.08.
B. PLS BORROWINGS:	Borrowings of various maturities will be given weightages as for term deposits of corresponding maturities.
C. EQUITY:	Not exceeding 5 as may be determined by the concerned bank.

The amount of non-interest income distributable on PLS deposits of each type/maturity will be converted into an annual percentage rate of profit and the rate rounded off to the nearest one-tenth of a percentage point as illustrated in proforma 'E'.

3. It would appear that if the non-interest earning assets are low as compared to PLS deposits, the rate of return on such deposits will be low as in such a situation a part of the funds will remain unutilised. The Banks/DFIs should carefully watch the growth of PLS deposits and ensure that their investments in non-interest bearing assets are substantially higher than the deposits. If for any reason this is not feasible at any stage, the unutilised funds

should be deposited with the State Bank on PLS basis as already permitted under BCD Circular No. 27 dated the 24th December, 1980 in the case of banks, which facility is being extended to DFIs also.

4. The figures in the annexed Statements should pertain only to the domestic operations of the nationalised commercial banks. The part of the cost of head office organisation attributable only to external operations will be secluded from domestic costs. Similarly, the cost of foreign banks organisations meant only for external operations will have to be distributed among the branches abroad and the share attributable to branches in Pakistan taken into account. The figures for these cost calculations as well as the provisions for bad and doubtful debts will have to be finally estimated by the State Bank of Pakistan for distribution of profits. This will, however, be without prejudice to the figures adopted by Income Tax authorities in due course which will be the basis of taxation of banks and allowing remittance of profits by foreign bank branches located in Pakistan.

5. Please acknowledge receipt.

Yours faithfully,

(SIBGHATULLAH)

Director

Statement 'A'

(Name of the Bank)

Average funds employed on earning assets during
the six months ended.....

(Rs.....000)

I. Funds employed on the basis of Interest.

Particulars	Average	
(i) Loans & Advances	80,000	
(ii) Balances held abroad	5,000	
(iii) Investments	35,000	1,30,000

II. Funds employed on non-interest basis.

(i) Assets based on trade-related modes of financing.	100,00	
(ii) Assets based on investment type modes of financing	110,000	
(iii) PLS deposits with other banks.	20,000	
(iv) Funds employed on the basis of other modes, if any.	10,000	2,40,000
Total:		3,60,000

The following assets will not be included in this statement:-

- (i) Loans on the basis of service charge.
- (ii) Qard-e-Hasana.
- (iii) Assets on which interest or return is not being taken to income account.

Statement 'B'

(Name of the Bank)

Income for the six months ended _____

(Rs.....000)

I. Interest-Based Income.

Income from	Amount of income.
(i) Loans & Advances.	4,800
(ii) Balances held abroad.	300
(iii) Investments.	2,100
(iv) Total:	7,200

II. Non-Interest Income.

Income from	Amount of Income.
(i) Assets based on trade-related modes of financing.	7,000
(ii) Assets based on investment type modes of financing.	6,600
(iii) PLS deposits with other banks.	1,000
(iv) Non-fund based income.	800
(v) Other non-interest sources.	200
(vi) Total:	15,600
(vii) Less:	
(a) Proportionate Admn: cost as per Statement 'D'	4,930
(b) Provision for Bad/Doubtful Non-interest based assets.	380
	5,310
(viii) Balance (vi minus vii)	10,290
(ix) Less Management fee not exceeding 10% of viii.	1,029
(x) Net non-interest income (viii minus ix)	9,261

Statement 'C'

(Name of the Bank)

Average remuneratable liabilities for the six months
ended _____

(Rs.000)

Particulars.	Average	
I. Interest bearing Liabilities:		
(i) Deposits.	70,000	
(ii) Borrowings.	10,000	80,000
II. PLS Liabilities:		
(i) Deposits.	140,000	
(ii) Borrowings.	20,000	160,000
III. Equity:		
(i) Capital.	20,000	
(ii) Reserves.	10,000	
(iii) Balance of Profit & Loss Account.	—	30,000
	Total:	270,000

Statement 'D'

(Name of the Bank)

**Administrative cost for the six months ended _____
and its allocation between interest based income and
non-interest income.**

(Rs.....000)

I. Administrative Cost.

Particulars	Amount
Total expenditure excluding taxes on income.	18,000
<i>Less:</i>	
(i) Interest and/or return on deposits, borrowings etc.	10,500
(ii) Bad & doubtful assets written off directly.	295
	10,795
Administrative cost.	7,205

II. Allocation of the Administrative Cost.

(i) Non-interest income as per statement 'B'	15,600
(ii) Interest-based income as per statement 'B'	7,200
(iii) Total:-	22,800
(iv) Ratio of (i) to (iii):	13:19
(v) Administrative cost allocable to non- interest income (cost multiplied by the ratio, i.e. 13/19)	4,930

Name of the Bank)

(Rs.....000)

**Distribution of net Non-Interest Income (item II(X)
of Statement 'B') for the six months ended**_____

1. Average earning assets as per statement 'A'.	3,60,000
2. Average remuneratable liabilities as per statement 'C'.	2,70,000
3. Ratio of 2 to 1 above.	3:4
4. Total Non-interest assets as per statement 'A'.	2,40,000
5. Total Non-interest assets deflated by the ratio at 3.	1,80,000

6. Manner of distribution of Non-interest income:

- (i) If the figure at 5 above is less than or equal to the average PLS deposits as per statement 'C' the entire net non-interest income as per statement 'B' will be distributed on the PLS deposits.
- (ii) If the figure at 5 above is more than the average of PLS deposits as per statement 'C' but less than or equal to the sum of average PLS deposits and PLS borrowings, the non-interest income will be applied to remunerate the entire PLS deposits plus such portion of the PLS borrowings which together with PLS deposits is equal to the amount at 5 above.
- (iii) If the figure at 5 above is more than the average of PLS deposits and PLS borrowings but less than or equal to the sum of PLS deposits, PLS borrowings and equity as per statement 'C', only such portion of non-interest income will be applied to remunerate the whole of PLS deposits and PLS borrowings and such portion of equity which together with PLS deposits and PLS borrowings is equal to the amount at 5 above.
- (iv) If the figure at 5 above is more than the sum of average PLS deposits and PLS borrowings and equity as per statement 'C', only such portion of non-interest income will be applied to these items as bears the same ratio to the total non-interest income as the sum of PLS deposits, PLS borrowings, and equity bears to the amount at item 5 above.

- (v) The distribution of non-interest income to the various remuneratable liabilities will be made after giving the following weights to various items:-

<u>Particulars</u>	<u>Weightage</u>
I. DEPOSITS:	
1. Special Notice Deposits:	
(i) Withdrawable at 7 to 29 days' notice.	0.65
(ii) Withdrawable at notice of 30 days or more.	0.75
2. Savings Accounts.	1.00
3. PLS call deposits from other banks.	Weightage as agreed to by the banks concerned.
4. Term Deposits:	
(i) For terms upto and inclusive of 6 months.	1.00 + 0.05 for each month of the term of the deposit.
(ii) For terms in excess of 6 months.	1.3 for the first six months plus 0.01 for each subsequent month of the term of the deposit, subject to a maximum of 2.08.
II. PLS BORROWINGS:	
	Borrowings of various maturities will be given weightages as for term deposits of corresponding maturites indicated above.
III. EQUITY:	
	Not exceeding 5 as may be determined by the concerned bank.

Net non-interest income (Rs. 9,261,000) would thus be distributed as in the Annexure.

Annexure to Statement 'E'

(Rs.....000)

Type and Maturity of Non-Interest Liabilities	Average	Weightage	Weighted Average Liabilities	Income Allocation	Annual Rate of return in terms of percentage	Rate of Return Rounded off to the nearest one-tenth of a percentage point.
I. DEPOSITS:						
1. Special Notice Deposits:						
(i) 7 to 29 days notice	30,000	0.65	19,500	828	5.52%	5.5%
(ii) Over 30 days notice	20,000	0.75	15,000	637	6.37%	6.4%
2. Savings Accounts:	30,000	1.00	30,000	1273	8.49%	8.5%
3. PLS Call Deposits:	20,000	1.00	20,000	849	8.49%	8.5%
4. Term Deposits:						
(i) 3 months	10,000	1.15	11,500	488	9.76%	9.8%
(ii) 6 months	10,000	1.30	13,000	552	11.04%	11.0%
(iii) 1 year	10,000	1.36	13,600	577	11.54%	11.5%
(iv) 5 years	10,000	1.84	18,400	781	15.62%	15.6%
II. BORROWINGS:						
Borrowings (1 year)	20,000	1.36	27,200	1154	11.54%	11.5%
III. EQUITY:						
	20,000	2.50	50,000	2122	21.22%	21.2%
Total:	180,000		218,200	9261		