

IRAF: QUESTIONNAIRE FOR SELF-ASSESSMENT

Annexure 1

QUESTIONNAIRE FOR BANKS ON PRUDENTIAL REGULATIONS

S #	<u>Particulars</u>	Compliant		Comments
		Yes	No	
CONTRIBUTIONS AND DONATIONS FOR CHARITABLE, SOCIAL, EDUCATIONAL, AND PUBLIC WELFARE PURPOSES				
1.	Did the Bank/DFI develop policy/guidelines duly approved by the Board of Directors for making donations/contributions?			
2.	Did the Bank/DFI expressly disclose in its annual audited financial statements the total donation/contribution made during the year along with names of donees to whom total donations/contributions during the year were made in excess of Rs 100,000?			
3.	Did the Bank/DFI explicitly notify in the disclosure to the annual audited financial statements the names of directors, their interest in the donee and the names and addresses of all donees in case the director or his family members have interest in the donee?			
CREDIT RATING				
4.	Did the Bank/DFI get itself credit rated by a credit rating agency, which is on the approved panel of the State Bank of Pakistan?			
5.	Did the Bank/DFI update its credit rating for the last financial year within six months from the date of close of the financial year?			
6.	Did the Bank/DFI submit the credit rating report complete in all respects to the State Bank of Pakistan within seven days of its receipt from credit rating agency?			
7.	Did the Bank/DFI make public the credit rating report within seven days of its receipt from the credit rating agency?			
8.	Did the Bank/DFI disclose prominently its credit rating in its published annual and quarterly financial statements?			
KNOW YOUR CUSTOMER (KYC)				
9.	Did the Bank/DFI formulate in writing a comprehensive Know-Your-Customer Policy duly approved by its Board of Directors/Head Office (in case of branches of foreign banks)?			
10.	Did the Bank/DFI cascade down the line the Know-Your-Customer Policy for strict compliance?			
11.	Did the Bank/DFI obtain 'Introduction' on the new accounts to assess the prospective customer's/account holder's integrity, respectability and the nature of business?			
12.	Did the Bank/DFI adhere to SBP guidelines for obtaining introduction?			

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13.	Did the Bank/DFI and its branches obtain satisfactory evidence duly verified / authenticated by the branch manager and placed on record regarding: 1) The true identity of the beneficial owners of all accounts opened by a person, entity etc, 2) The real party in interest or controlling person/entity of the account(s) in case of nominee or minors account?			
14.	Did the Bank/DFI put in place a system to monitor the accounts and transactions on a regular basis?			
15.	Did the Bank/DFI update customer information and records at reasonable intervals?			
16.	Did the Bank/DFI install an effective MIS to monitor the activities in the customers' accounts?			
17.	Did the Bank/DFI maintain a proper record of customer identification and clearly indicate, in writing, if any exception is made in fulfilling the due diligence procedure?			
18.	Did the Bank/DFI develop guidelines for Customer Due Diligence including a description of the types of customers that are likely to pose a higher than average risk and factors such as customers' background, country of origin, public or high profile position, nature of business?			
19.	Did the Bank/DFI apply enhanced due diligence to the following: (i) To high-risk customers such as those belonging to countries where KYC and money laundering regulations are lax, those with links to offshore tax havens, customers in cash based businesses in high-value items, and high net worth customers with no clearly identifiable source of income (ii) Where it has reason to believe that the customer has been refused banking facilities by another bank / DFI (iii) For opening of correspondent banks' accounts (iv) In dealing with non-face-to-face/ on-line customers			
ANTI-MONEY LAUNDERING MEASURES				
20.	Does the Bank/DFI ensure that it conducts its business in conformity with high ethical standards and that banking laws and regulations are adhered to?			
21.	Does the Bank/DFI abstain from offering services or providing active assistance in transactions that in its opinion are associated with money derived from illegal activities?			
UNDERTAKING OF CASH PAYMENTS OUTSIDE THE BANK'S AUTHORIZED PLACE OF BUSINESS				
22.	Did the Bank abstain from undertaking any business of cash payments, other than the authorized place of business, except through the installation of Automated Teller Machines (ATM)?			

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23.	Did the Bank adhere to the maximum cash limit of Rs 10,000/- in providing the facility of withdrawal through Authorized Merchant Establishments at various Points of Sale (POS)?			
24.	Did the Bank put in place adequate and suitable security measures for cash feeding and safety of the machines?			
25.	Did the Bank devise procedures for doing collection and payment of cash for their prime customers through cash carrying companies registered with the concerned government department?			
WINDOW DRESSING				
26.	Did the Bank/DFI refrain from adopting any measures or practices through which an ostensibly different position of the accounts could be depicted in financial statements with particular reference to the deposits, MCR, non-performing loans/assets, provisioning, profit, inter-branch and inter-bank accounts?			
RECONCILIATION OF INTER-BRANCH ACCOUNTS AND SETTLEMENT OF SUSPENSE ACCOUNT ENTRIES				
27.	Did the Bank/DFI reconcile/clear and take to proper head of account all entries outstanding in the Inter-Branch Accounts or the Suspense Account within a maximum period of 30 days?			
28.	Did the Bank/DFI institute an effective internal control system, which creates accountability of the official(s) for neglecting the timely reconciliation and clearance of Inter-Branch and Suspense Accounts?			
MAINTENANCE OF ASSETS IN PAKISTAN				
29.	Did the Bank/DFI maintain in Pakistan not less than 80% of the assets created by it against the time & demand liabilities as specified in Part-A of Form X (prescribed under Rule 17 of the Banking Companies Rules, 1963)?			
30.	Did the Bank/DFI keep all other assets financed from sources other than time & demand liabilities specified in Form X within Pakistan?			
FOREIGN CURRENCY DEPOSITS UNDER FE 25-1998				
31.	Did the Bank/DFI abstain from investing FE 25 deposits in foreign currency or local currency denominated instruments below the investment grade?			
32.	Did the Bank/DFI abstain from investing or placing FE 25 deposits in fund management schemes of other Banks/DFIs/NBFCs in Pakistan or abroad?			
33.	Did the Bank/DFI maintain the prescribed ratio of Cash Reserve/Special Cash Reserve against FE 25 deposits in US Dollars?			
34.	Did the Bank/DFI abstain from placing funds of FE-25 deposits with any one bank/financial institution, in Pakistan or abroad, in excess of twenty percent of its equity (net of accumulated losses) or of the institution with whom the funds are being placed?			
35.	Did the Bank/DFI adequately cover exchange risks and maintain a square position while using FE 25 deposits for their trade-related activities?			

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36.	Did the Bank/DFI abstain from mobilizing FE 25 deposits (netted-off with the deposits utilized to finance trade related activities) in excess of twenty percent of its local currency deposits (at close of business on the last working day of the preceding quarter)?			
37.	Did the Bank/DFI report to the Banking Supervision Department the Pak Rupee equivalent amount (with a foot note on \$ equivalent) of FE 25 deposits utilized for trade related activities through the newly created code No.80-05 of the Weekly Statement of Position?			
LIMIT ON EXPOSURE TO A SINGLE PERSON				
38.	Did the Bank/DFI abstain from extending its total outstanding exposure (both fund based and non-fund based) to any single person in excess of 30% of its equity (as disclosed in the latest audited financial statements)?			
39.	Did the Bank/DFI abstain from extending a fund-based facility to a single person of not more than 20% of its equity? (With exceptions approved by SBP)?			
40.	Did the Bank/DFI abstain from extending its total outstanding exposure (both fund based and non-fund based) to a group in excess of 50% of its equity (as disclosed in the latest audited financial statements)?			
41.	Did the Bank/DFI extend a maximum fund based facility to a group equivalent to 35% of its equity?			
LIMIT ON EXPOSURE AGAINST CONTINGENT LIABILITIES				
42.	Does the Bank/DFI restrict its contingent liabilities to 10 times of its equity?			
MINIMUM CONDITIONS FOR TAKING EXPOSURE				
43.	Does the Bank/DFI obtain from Credit Information Bureau (CIB) of State Bank of Pakistan the credit report of the borrower and/or of his group before considering proposals for an exposure exceeding Rs.500,000/-?			
44.	Does the Bank/DFI obtain a copy of financial statements duly audited by a practicing chartered accountant if the borrower is a limited company or the exposure of a bank/DFI exceeds Rs 10 million?			
45.	Does the Bank/DFI obtain 'Borrower's Basic Fact Sheet', with the seal and signature of the borrower and in the approved format of the State Bank of Pakistan, before providing any exposure?			
LIMIT ON EXPOSURE AGAINST UNSECURED FINANCING FACILITIES				
46.	Did the Bank/DFI abstain from providing unsecured/clean-financing facility in any form of a sum exceeding Rs 500,000/- to a person?			
47.	Did the Bank/DFI obtain a written declaration from the borrower describing his abstinence from obtaining clean financing in his name or of his family members from other banks/DFIs in excess of Rs 500,000/- in aggregate?			
LINKAGE BETWEEN FINANCIAL INDICATORS OF THE BORROWER AND TOTAL EXPOSURE FROM FINANCIAL INSTITUTIONS				
48.	Does the Bank/DFI ensure that the total exposure (both fund-based and non-fund based) and fund-based exposure availed by a borrower does not exceed 10 times and 4 times, respectively, his equity as disclosed in its financial statements?			

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49.	Did the Bank/DFI ensure that the current assets to current liabilities ratio of the borrower is not lower than 1:1or 0.75:1(in exceptional cases when appropriate risk mitigants were put in place or the nature of the business adversely impacts the ratio)?			
50.	Did the Bank/DFI maintain the Exceptions Approval file and make it available to the inspection team of State Bank during the inspection?			
EXPOSURE AGAINST SHARES/TFCs AND ACQUISITION OF SHARES				
51.	<p>Did the Bank/DFI abstain from:</p> <p>a) Taking exposure against the security of its own shares / TFCs</p> <p>b) Providing unsecured credit to finance subscription towards floatation of share capital and issue of TFCs.</p> <p>c) Taking exposure against the non-listed TFCs or the shares of companies not listed on the stock exchange (s).</p> <p>d) Taking exposure on any limited company against the company’s own shares/TFCs or of its group companies.</p> <p>e) Taking exposure against the banks own ‘sponsor director’s shares’ (issued in their own name or in the name of their family members)</p> <p>f) Taking exposure on any person (whether singly or together with other family members or companies owned and controlled by him or his family members) against shares of any commercial bank/DFI in excess of 5% of paid-up capital of the bank / DFI.</p> <p>g) Taking exposure against the shares/TFCs of listed companies that are not members of the Central Depository System.</p> <p>h) Taking exposure against unsecured TFCs or non-rated TFCs or TFCs rated below ‘BBB’ or equivalent.</p>			
52.	Did the Bank/DFI abstain from owning shares of any company/scripts in excess of 5%?			
53.	Did the Banks/DFIs (which are mobilizing funds) keep total investments in shares at maximum 20% and 35% of their own equity?			
54.	Did the Bank/DFI adhere to State Bank of Pakistan guidelines for valuation of marketable securities for valuation of shares of companies?			
55.	Did the Bank/DFI sell off within a period of three months the shares acquired due to the underwriting commitments that are in excess of 5% its equity?			
56.	Did the Bank/DFI abstain from holding shares of a company as pledge, mortgage, or absolute owner, of an amount exceeding 30% of the paid-up share capital of that company or 30% of its own paid-up share capital and reserves, whichever is less?			
57.	Did the Bank/DFI maintain minimum margin of 30% of the current market value for its exposure against the shares of listed companies?			
58.	Did the Bank/DFI monitor the margin on at least weekly basis and take appropriate action for top-up and sell-out on the basis of their Board of Directors’ approved credit policy and acquire pre-fact written authorization from the borrower?			
59.	Did the Bank/DFI, respectively maintain a minimum margin of 10% and 20% for its exposure against TFCs rated ‘A’ (or equivalent) and TFCs rated ‘A-’ and ‘BBB’ (rated by a credit rating agency on the approved panel of State Bank of Pakistan)?			

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GUARANTEES				
60.	Did the Bank/DFI fully secure itself against all guarantees issued except for the cases where it was waived up to 50% at its own discretion by holding at least 20% of the guaranteed amount in the form of liquid assets as security?			
61.	Whether all guarantees issued by the bank/DFI are for a specific amount, expiry date and contain a claim lodgment date with exception of those mentioned under para-4 of PR-7.			
CLASSIFICATION AND PROVISIONING FOR ASSETS				
62.	Did the Bank/DFI adhere to the guidelines prescribed by SBP for provisioning and classification of its asset portfolio?			
63.	Did the Bank/DFI make subjective evaluation of its performing and non-performing credit portfolio besides applying the time-based criteria for classification?			
64.	Did the Bank/DFI abstain from changing status of classification of a loan/advance through rescheduling/restructuring unless the terms & conditions of rescheduling/restructuring are fully met for a period of at least one year (excluding grace period, if any) from the date of the rescheduling/restructuring and at least 10% of the outstanding amount is recovered in cash?			
65.	Did the Bank/DFI abstain from taking to income account the unrealized mark-up on loans (declassified after rescheduling/restructuring) unless at least 50% of the amount is realized in cash?			
66.	Did the Bank/DFI abstain from revaluing the Forced Sale Value of collateral before passage of three years for the previous valuation?			
67.	Did the external auditors verify during their annual audit of bank/DFI that all requirements of Regulation R-8 for classification & provisioning of assets have been complied with?			
ASSUMING OBLIGATIONS ON BEHALF OF NBFCs				
68.	Did the Bank/DFI abstain from issuing any guarantee or letter of comfort or assuming any obligation in respect of deposits, sale of investment certificates, issue of commercial papers, or borrowings of a non-banking finance company?			
69.	Did the Bank/DFI ensure, before taking exposure against the guarantee of NBFC, that the total guarantees issued by an NBFC in favor of banks/DFIs do not exceed 2.5 times the capital of the NBFC as evidenced by the latest available audited financial statements of the NBFC?			
70.	Did the Bank/DFI adhere to the per party limit mentioned in Regulation R-1 while allowing exposure to a client against the guarantee of an NBFC rated at least 'A' or equivalent by a credit rating agency on the approved panel of State Bank of Pakistan?			
71.	Whether the Bank/DFI has observed the per party limit while underwriting TFCs, commercial papers and issuing guarantees in favor of multilateral agencies for providing credit to NBFCs?			

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FACILITIES TO PRIVATE LIMITED COMPANY			
72.	Did the Bank/DFI formulate a policy, duly approved by their Board of Directors, about obtaining personal guarantees from directors of private limited companies?		
PAYMENT OF DIVIDEND			
73.	Did the Bank/DFI abstain from paying dividend on its shares unless and until: (a) It meets the minimum capital requirements set forth by State Bank of Pakistan; (b) It duly provided for all its classified assets in accordance with the Prudential Regulations (c) It fully complies with all the requirements laid down in Banking Companies Ordinance, 1962 relating to payment of dividend		
MONITORING			
74.	Did the Bank/DFI obtain monthly statement from borrowers that contains a bank-wise break-up of outstanding amounts and the total value of stocks and receivable before extending fund based facilities to borrowers against hypothecation of stock or receivables on pari-passu basis?		
MARGIN REQUIREMENTS			
75.	Did the Bank/DFI adhere to the margin requirements prescribed by State Bank of Pakistan?		
UNDERTAKING OF BROKERAGE BUSINESS BY BANKS/DFIS			
76.	Did the bank/DFI setup a separate subsidiary (a limited company) to conduct brokerage business? ¹		
77.	Did the Bank / DFI build a system to avoid any conflict of interest with and to restrict its responsibilities and liabilities in the brokerage subsidiary?		
78.	Did the bank /DFI before establishing a subsidiary for brokerage submit to SBP: <ul style="list-style-type: none"> • The complete feasibility study • The amount of investment to be made by it in the paid-up capital of the subsidiary • The structure of the Board of Directors and management of the subsidiary 		
79.	Did the bank /DFI obtain approval of State Bank of Pakistan before increasing its investment in the equity of the subsidiary?		
80.	Did the Bank / DFI abstain from having people hold any position of management or staff nature simultaneously in the Bank / DFI and the subsidiary?		
81.	Does the subsidiary have a completely independent and different Board of Directors from that of the bank/DFI?		

¹ If answer to Question No. 76 is “No”, then the bank would not be required to respond to further questions from 76-89

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82.	Did the Bank / DFI limit nomination of its employees as directors in the BOD of the subsidiary to a maximum 40% of the total directors of the subsidiary?			
83.	Did the members and family members of the Board of Directors and employees of the bank/DFI disclose to the bank/DFI through periodical statements all the transactions they conducted through the subsidiary?			
84.	Did the subsidiary abstain from undertaking, on its own or on behalf of its clients, sale and purchase of the shares of or securities issued by the bank/DFI?			
85.	Did the Bank / DFI adhere to the SBP limits for undertaking sale / purchase of shares and securities through the subsidiary?			
86.	Did the Bank / DFI execute a written agreement with its subsidiary for utilization of its distribution channels for selling the products of the subsidiary?			
87.	Does the bank/DFI provide sale/ support service or premises to the subsidiary on commercial basis only?			
88.	Did the bank/DFI abstain from providing any non-fund based facility to the subsidiary?			
89.	Did the Bank / DFI adhere to Prudential Regulation R-1 while providing fund based facilities and margin financing to the subsidiary?			

Chairman
Board of Directors