
Banking Supervision Department

Q1. What is Microfinance? Why it is different from other usual financing facilities offered by commercial banks?

Ans. Microfinance is the provision of financial services including Credit, Savings, Insurance etc, to those sectors of economy, which are not serviced by traditional formal financial institutions viz. commercial banks and non-banking financial institutions. Microfinance caters to the financial services needs of the poor and micro enterprises and is normally collateral-free short term facility whereas the commercial banks generally deal with corporate clients, SMEs and individuals with larger income levels and extend financing facilities primarily based on collaterals and borrowers capacity to repay.

Q2. What are different types of institutions providing Microfinance/microcredit in Pakistan?

Ans. Broadly there are two types of institutions in Pakistan providing microcredit/microfinance services to the poor households/micro enterprises a) the Non Government-Microfinance Institutions (NGO-MFIs) /Rural Support Programs (RSPs) extending microcredit to the poor through sources other than public savings and b) the formal microfinance banks providing a range of financial services to the poor and micro enterprises including microcredit, savings, payment transfers etc. The formal microfinance banks are required to take license from State Bank of Pakistan under MFIs Ordinance 2001 to operate as microfinance bank and are under the regulatory ambit of the State Bank, whereas the NGO-MFIs/RSPs are registered with Registrar NGOs/Provincial Cooperative Departments and are not under the regulatory ambit of State Bank. While the Microfinance Banks are eligible to mobilize public savings to finance their operations, the Government has established a wholesale window, the Pakistan Poverty Alleviation Fund (PPAF), to provide wholesale funds/credit lines and grants to NGOs for on lending to the poor and capacity and infrastructure building.

Presently two microfinance banks viz. Khushhali Bank and The First Microfinance Bank Ltd. and a number of NGOs/RSPs including National Rural Support Program (NRSP), Punjab Rural Support Program (PRSP), Sarhad Rural Support Program (SRSP) KASHF, DAMEN, OPP, SUNGI, Tarraji Trust, HDF and SPO are operating in the country.

Q3. What is the Criteria/Policy for obtaining License to Establish a Microfinance Bank?

Ans. The licensing criteria and application forms may be accessed through following link: www.sbp.org.pk/bprd/index.htm

Q4. What are the minimum and maximum limits of loans and maturity periods?

Ans. There is no prescribed minimum lending limit, the SBP however, prescribes the maximum limit in consultation with stakeholders and the present limit is Rs.100,000/- to a single borrower.

Q5. Is there any ceiling for mark-up rates to be charged by Microfinance banks?

Ans. There is no floor or ceiling of mark-up rates charged by MFBs. The banks themselves price their products and services based on their own cost structure and risk appetite. The Prudential Regulation for Microfinance Banks require the MFBs to price their products and services in a way, which ensure operational and financial self-sustainability of MFBs as well as access to the poor to affordable financial services.

Q6. What are different Types of Microfinance banks/Institutions (MFBs/MFIs), which could be established under Microfinance Institutions Ordinance, 2001?

Ans. Three categories of MFIs that can be established under MFIs Ordinance 2001 viz.:
MFIs having operations on national level, Country-wide; minimum capital Rs.500 million
MFIs operating in a Province, Province-wide; minimum capital Rs.250 million
MFIs operating in a specified District, District-wide; minimum capital Rs.100 million

Q7. From where the regulations issued by State Bank of Pakistan for Microfinance Banks/Institutions could be accessed?

Ans. The prudential regulations for microfinance banks can be accessed by clicking link on SBP website www.sbp.org.pk/bprd/index.htm

Q8. Which Department is involved in imposition of penalty on inspection reports?

Ans. Banking Supervision Department

Q9. 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

Q10. 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 accessed through SBP website.

Q11. 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.

Q12. 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.

Q13. 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.

Q14. Which provision of SBP Act governs Cash Reserve Requirement for banks?

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

Q15. What is CRR nowadays?

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

- Q16.** 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.
- Q17.** What happened if a bank fails to maintain CRR, CRA, SCRA?
Ans. Monetary penalties are imposed on the defaulting banks under BCO.1962.
- Q18.** 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.
- Q19.** 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.
- Q20.** 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).
- Q21.** 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.
- Q22.** 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.
- Q23.** 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.
- Q24.** 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,
- Q25.** 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.

Q26. 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.

Q27. 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.

Q28. 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.

Q29. 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.

Q30. 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.

Q31. 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 non-performing loans of banks and DFIs. The information is also posted on State Bank's web site, which is updated on quarterly basis.

Q32. When was CIB established?

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

Q33. 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.

Q34. Which type of data is collected/distributed by CIB?

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

Q35. 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.

Q36. 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.

Q37. 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.

Q38. 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.

Q39. 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.

Q40. 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.

Banking Policy Department

Q 41 What are the Prudential Regulations?

A The Prudential Regulations are set of the instructions, which the banks are required to observe while providing any facility, whether fund based or non fund based, to their clients.

Q 42 Whether Prudential Regulations are applicable to banks only or to other financial institutions?

Ans. Prudential Regulations are applicable to commercial banks only. For Non-Bank Finance Companies (including DFIs) Rules of Business for NBFIs are in-forced.

Q 43 What is the basis of calculating per party exposure limit of various banks?

Ans. The per party exposure limit of a bank is calculated on the basis of its equity as per last available audited accounts.

Q 44 What is the debt equity ratio?

Ans. A debt equity ratio determines the extent of sponsors exposure in a project or any venture, for which they intend to seek finance from the bank. The current debt equity ratio is 60:40 except in certain cases where it is specified otherwise.

Q 45 Are there any instances of relaxing debt-equity ratio for some sectors of the economy?

Ans. Yes, presently, two sectors viz. telecommunication sector and infrastructure projects have been allowed relaxation in the debt-equity ratio up to 75:25 and 80:20 respectively.

Q 46 What is the criteria of allowing relaxation from Prudential Regulations?

Ans. State Bank of Pakistan allows relaxation from Prudential Regulations on the request of any party keeping in view the merits and demerits of the case and their implications involved.

Q 47 Will revaluation reserves include revaluation of assets other than fixed assets?

Ans. No, revaluation reserves will include only fixed assets.

Q 48 Are the credit cards loans secured by hypothecation on the household goods treated as unsecured?

Ans. No, such loans are considered secured and are not treated as clean.

Q 49 What is a subordinated loan for banks?

Ans. Subordinated loan means an unsecured loan extended to the borrower by its sponsors, subordinate to the claim of the bank taking exposure on the borrower and documented by a formal sub-ordination agreement between provider of the loan and the bank. The loan shall be disclosed in the annual audited accounts of the borrower as subordinated loan and shall be withdrawn only with the express approval of the State Bank.

Q 50 Whether the per party exposure limit covers the group exposure or the individual unit only?

Ans. No, the PPL is calculated by taking into account the individual entity exposure only.

Q 51 Are revaluation reserves considered part of the equity for the purpose of calculating borrower's debt-equity ratio, as is the case in Prudential Regulation-IV?

Ans. No, they are not.

Q 52 Can a bank provide loans to a company against the security of the company's own shares?

Ans. No, the bank cannot give loans against the security of neither the company's own shares nor the lending bank's own shares.

Q 53 Whether the objective criteria or the subjective one is used while classifying any loan?

Ans. Subjective criteria is also used beside objective one, which includes cash flow patterns of the borrower, adequacy of his security and other market conditions relevant for the particular business of the borrower.

Q 54 Can a loan be declassified after its restructuring / rescheduling?

Ans. No, at least for a year, excluding the grace period if any.

Q 55 Can a loan rescheduled / restructured be reported as non-performing to the State Bank of Pakistan in their CIB reports?

Ans. No, the loans restructured / rescheduled cannot be reported as non-performing to the SBP. They will separately be reported as restructured / rescheduled loans.

Q 56 What kinds of assets are eligible for provisioning benefits?

Ans. The property mortgaged (fixed assets) and the pledged goods are eligible for provisioning benefits.

Q 57 Can other assets be classified?

Ans. Yes, other assets are also subject to classification on subjective basis keeping in view the risks involved as well as the international accounting standards.

Q 58 How can bank provide financial assistance under commodity operations financing?

Ans. The Finance Division makes allocations to the agencies involved in commodity operations financing, which if covered under the provisions of credit, are distributed among banks on the basis of the request of each agency.

Q 59 Has State Bank prescribed any criteria for financing by banks under Export Finance Scheme?

Ans. Yes, State Bank has prescribed all details in this regard which are available on the website under the head "incentives for Exporters". However, banks keeping in view the credit worthiness of each borrower make decisions regarding financing to specific exporter.

Q 60 Does facilities under the EFS are available for all commodities exported from Pakistan?

Ans. No. State Bank has prescribed a list of items called "Negative List" which items are not eligible for financing under the Scheme. Banks, can however finance export of these commodities from their own resources and subject to their own lending policies.

Q 61 Does the exporters are required to observe all Prudential Regulations?

Ans. Lending is a relationship between the bank and the borrowers. State Bank has prescribed Prudential Regulations and other measures to strengthen its regulatory regime to ensure that banks are utilizing deposits generated by them from public in a fair manner. Though Our PRs have some inbuilt relaxations for the export finance provided by the banks under EFS but the decision to allow such benefit to the borrowers entirely rest on the banks, as they assume the credit risk.

Q 62 What is the difference between Part-I and Part-II of the Export Finance Scheme?

Ans. Part-I is the transaction based facility wherein funds under Export Finance Scheme are provided by the banks to exporters for exports of eligible commodities on case to case or transaction basis. Whereas funds under Part-II are provided on the basis of previous performance of the exporter in respect of export of eligible commodities on July-June basis.

Q 63 Can exporters in Pakistan borrow in foreign currency?

Ans. Yes, exporters can borrow in foreign currency under FE-25 scheme or Foreign Currency Export Finance Facility.

Q 64 Does State Bank undertakes any dissemination to the end users of Export Finance Scheme and Foreign Currency Export Finance Scheme?

Ans. Though the information about various schemes are available on our website, the State Bank has been participating in various exhibitions for giving information to the

prospective users of its Scheme. Occasionally seminar/ tutorial are also held for briefing the exporters, bankers about various features of the Schemes.

Q 65 What is the role of the State Bank in the Exit Control List in respect of the borrowers of the banks and other financial institutions?

Ans. The State Bank only forward the names of the delinquent borrowers, recommended by the financial institutions to the Ministry for their inclusion on the ECL. Likewise names of the borrowers, which banks recommend for deletion, are forwarded to the Ministry for necessary action.

Q 66 What steps have been taken by the State Bank for enunciation of Islamic Banking in Pakistan?

Ans. State Bank has been trying to develop enabling regulatory environment that would help the interested banks to start Shariah compliant financing facilities in Pakistan. These steps includes formulation of criteria for setting up of Islamic Bank,. The Existing Financial institution/ banks can also start Sharia based financing facilities by setting up subsidiaries or authorizing their existing branches for undertaking Shariah compliant banking or stand alone basis with adequate fire walls.

For Capacity Building at SBP the Bank have set up a dedicated Islamic Banking Department. It has also initiated the process for conducting Shariah audit to check the compliance of the Islamic Banks/ branches to the shariah requirements.

In order to give level playing fields to such ventures, for trade finance activities, State Bank has also introduced an Islamic Export Refinance Scheme.

Q 67 Can any one set up a new commercial bank in Pakistan and how?

Ans. For the present, a moratorium has been placed on setting up of new commercial bank in Pakistan. However interested parties can set up Islamic Bank, for which criteria has already been circulated and is available on our web site [link to be pasted here..](#) They can also purchase any existing bank subject to meeting fit & proper test prescribed by State Bank.

Q 68 Can any one in Pakistan hold share of banks floated on stock exchange?

Ans. Yes, but only to the extent of less than 5% of the total shares. Any person, individual, partnership or a body corporate desirous to hold 5% or more shares of banks in Pakistan has to seek prior clearance from State Bank.

Q 69 Can any person by virtue of its share holding becomes entitled to be the member of the Board of Directors of the bank or its chief executive (by whatever name called) or the Chairman of its Board?

Ans. No. Any person wishing to hold the above offices has to meet the fit & proper test and seek prior approval from the State Bank. This principle is equally applicable to the similar positions in government owned financial institutions.

Q 70 How the fines charges under Export Finance Scheme are refunded?

Ans. State Bank has prescribed a complete procedure for seeking refund of fine charged under Export Finance Scheme, which is available on its website at [Link to be mentioned here.](#) Exporters and banks are required to observe the modalities prescribed therein for early disposal of requests for refund.

Q 71 What relief State Bank can provide to the borrowers who are refused financing facilities by the banks?

Ans. Lending is a commercial decision of the bank and State Bank does not normally interfere in the same, as it is the bank who assumes the credit risk. However in cases where the bank has denied facilities on reasons other than merit, State Bank may ask the bank to provide facility to the borrower, on fulfillment of requirements prescribed by the bank.

Q 72 What step has been taken by State Bank to provide assistance for SME sector?

Ans. State Bank has done away with the directed and subsidized credit. Instead we are now aiming to provide enabling environment to banks to cater to the financing requirements for different sector especially SME sector. We have already drafted the PRs for banks enabling them to evaluate the SME sector and the Consumer Financing. State Bank is also working closely with the Government for capacity building of the SME bank and other banks for financing to these sectors. Once these arrangements are put in place these would ensure flow of more credit to these sectors along with other priority areas.

Q 73 Does the grant of license by the State Bank to a bank (local as also branch of foreign bank) tantamount to deposit guarantee.

Ans. No, in Pakistan so far there is no express deposit insurance arrangements. State Bank is presently working on development of deposit insurance arrangements in Pakistan. The government owned banks have an implied guarantee for their depositors under the provision of Bank's Nationalization Act, 1974.

Q 74 How can we get instant help for getting explanation in respect of various circulars, instructions issued by the banking departments of the State Bank of Pakistan?

Ans. Different departments of the State Bank have started to set up "Help Desk" on our website. The Banking Policy Department has already set up its help desk on the web site at [Link to be pasted](#) which can be accessed for getting clarifications.

Q 75 How can the customers of the bank seek redressal of their grievances against banks?

Ans. Banking Policy Department has already set up a "Complaint Unit" for handling complaint against banks. The aggrieved customers may approach them through mail or using the E-mail-----, and send the documentary evidence through mail for enquiry and redressal.

Q 76 Are offering of high return an indication of good financial health of bank/DFI.

Ans. Not necessarily, Depositors may like to keep in mind that higher return is always associated with higher risk.

Q 77 How I can get new currency notes?

Ans. Under the new organizational set up of the State Bank of Pakistan, an exclusive entity called SBP BSC (Bank) has been set up with offices in sixteen different cities of Pakistan. The matter regarding issuance of currency notes and Prize bonds to general public are dealt with by this entity, and new currency notes are issued subject to availability of stock. However to facilitate the general public new currency notes are also supplied to the banks for distribution to the general public.

Q 78 Did SBP fix the markup on Housing Loan?

Ans. No. Commercial Banks have designed their own housing products. They are offering different markup rates according to the financial standing of the client.

Q 79 How can I get Housing Loan?

Ans. Visit any commercial bank who is offering housing loan and complete the required documentation. After assessing your application the bank would let you know whether you are eligible for loan or not. You may convince the bank and negotiate the markup rate based on your low risk profile, cash flows et.

Q 80 Is markup rate fixed on Housing Loan?

Ans. Not necessarily. Banks are offering housing loan on both floating and fixed rates

Banking Inspection Department

Q 81 What is the mission of BID?

Ans. The Mission of BID is to strive for soundness and stability of the financial system to safeguard interest of stakeholders through proactive inspections,

compatible with best international practices in keeping with the changing global environment in the financial sector.

Q 82 What is the function of Banking Inspection Department of SBP?

Ans. The main function of BID is to conduct regular and special onsite inspection of Commercial Banks, DFIs, Micro Finance Institutions (MFIs) (SMEs) and Exchange Companies.

Q 83 What is the approach and purpose of inspection?

Ans. The approach of inspection is risk based through which various types of risks to which an institution is exposed to, are identified and measured. Corrective actions are suggested by BID to ensure bank's safety and soundness. Furthermore, compliance with rules / regulations / guidelines issued by SBP from time to time and other relevant laws is also ensured.

Q 84 What is frequency of BID's inspection?

Ans. Inspections are conducted according to a plan, usually on annual basis, depending upon the risk in a bank.

Q 85 What is the difference between regular and special inspection?

Ans. Regular inspection is a full scope inspection conducted as per schedule mentioned above. However, special purpose inspection is conducted to look into a specific area whenever need arises. Special inspection is also conducted to entertain complaints received from different quarters.

Q 86 Which areas are covered during inspection?

Ans. During full scope inspection overall operations of the institution are covered. Particular emphasis is given on review of advance & investment portfolio, management competency, capital adequacy, earnings, liquidity and adequacy of internal controls.

Q 87 What is ultimate usage of inspection reports?

Ans. Inspection report is submitted to the bank's board of directors to take actions for the removal of irregularities pointed out in the inspection report. A copy of report is also submitted to the enforcement division of SBP who advises institutions to furnish time bound action plan in order to address the issues and to rectify the irregularities pointed out in inspection report.

Q 88 What other kind of reports are prepared by BID?

Ans. A quarterly report is generated to report the shortcomings and violations on the part of the banking company's management to the Federal Government as per section 40A to BCO, 1962. A report on write-off of loans, mark-up and other dues or financial relief through rescheduling and restructuring and subsidized loans provided by the banking companies, is also prepared on annual basis under section 25AA of BCO, 1962 and submitted to Federal Government.