Journal of The Institute of

Bankers

Pakistan

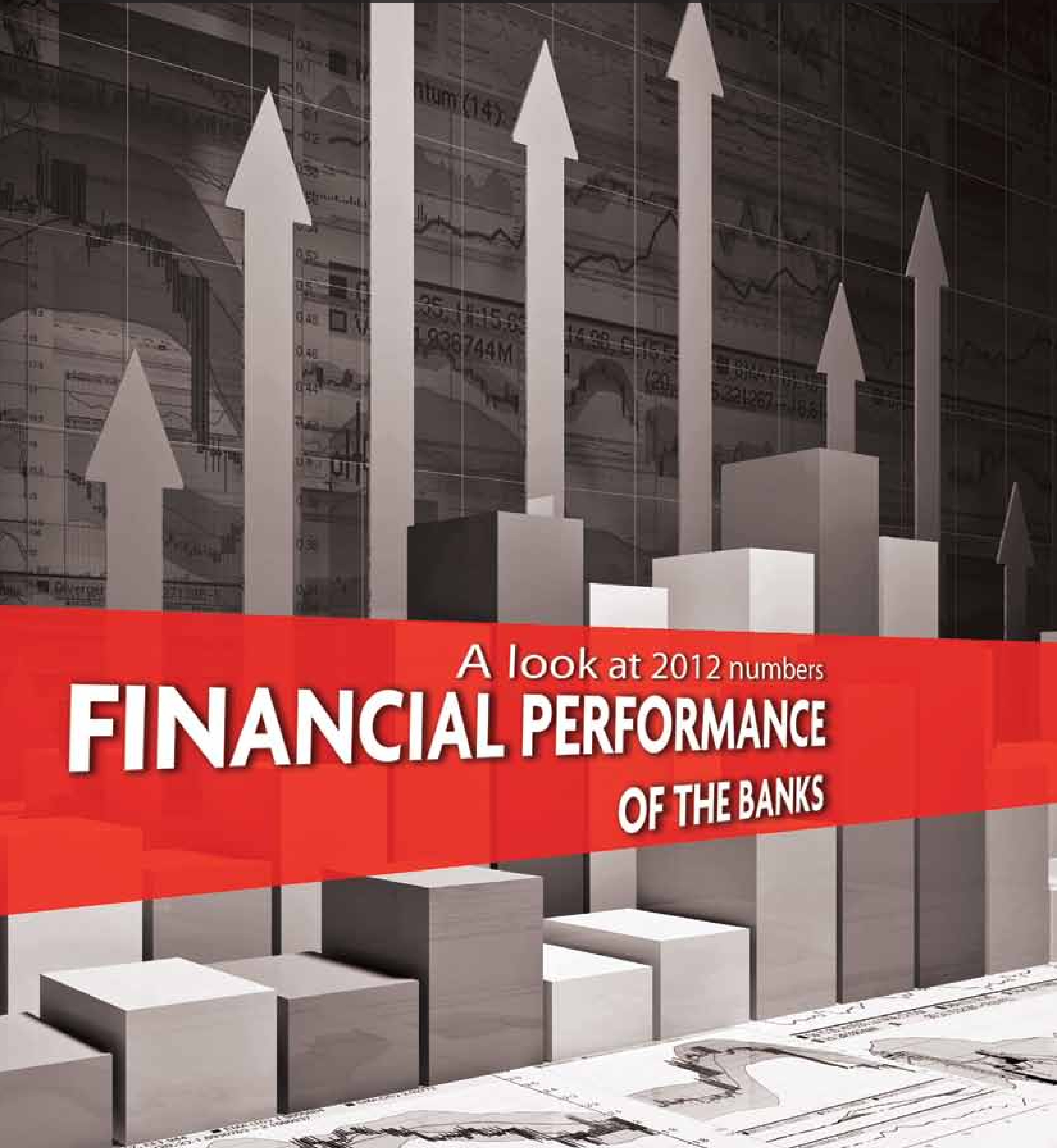
Volume 80 | Issue # 1 March 2013

Bank Corporate Governance - Unfinished Business

Top 10 Operational Risks for 2013

Microfinance in Pakistan: Opportunities and Challenges

How to deal with a difficult boss

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1	**MUHAMMAD SHERAZ ASHRAF**	Habib Bank Limited, Karachi
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Examination Schedule
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	JAIBP Stage 1 9am-12 noon	JAIBP Stage 2	JAIBP Stage 3 2pm-5pm	Associateship 2pm-5pm
Monday 27 May 2013	Branch Banking	——	Management Accounting for Financial Services	Anti Money Laundering Measures & Business Ethics
Tuesday 28 May 2013	Introduction to Financial Systems & Banking Regulations	——	Finance of International Trade & Related Treasury Operations	Corporate & Banking Law
Wednesday 29 May 2013	Information Technology in Financial Services	Economics **(2pm-5pm)**	——	Advance Risk Management
Thursday 30 May 2013	Business Communication for Financial Services	Lending: Products, Operations & Risks Management **(2pm-5pm)**	——	Financial Planning & Budgeting
Friday 31 May 2013	——	Human Resources Managements Organizational Behavior **(9am-12 noon)**	Marketing of Financial Services **(2:30pm-5:30pm)**	Specialization Subjects* **(2:30pm-5:30pm)**
Saturday 01 June 2013	——	Accounting for Financial Services **(9am-12 noon)**	Specialization Subjects**	——

NOTE:

- Candidates will not be allowed to take mobile phones with them into the examination hall. IBP will not make any arrangement for safekeeping of phones or any valuables.
- For details regarding your assigned center and enrolled subjects, please refer to your admit card.

*AIBP:

1) Financial Derivatives
2) Project Financing
3) Capital Markets
4) Strategic Human Resource Management
5) An Introduction to Insurance

**JAIBP:

1) Microfinance
2) Agricultural Finance
3) Islamic Finance
4) SME Banking

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editorial

Areas of Focus 2013

As the banking sector closed its respective books on the 31st of December, 2012, it did so with a pinch of salt. And the pinch was not just restricted to that, as the effect of the downward revised interest regime and enhancement of minimum return on savings accounts translated into stunted earnings and reduced net interest margins by constricting interest yield and swelling cost of deposits.

Meanwhile, deposits continued their growth trajectory, and risk-cautious banking funds were subsequently channeled more towards investments – particularly government paper – than advances. Going forward, anticipations of monetary expansion are expected to further boost the deposit base of the banking sector; this, along with maintenance of current interest levels and lower provisioning are projected to alleviate the pressures of the SBP directives to pay profit on saving/term deposits based on average monthly balance rather than minimum account balance and the minimum rates, thereof.

As banks gear up for amplifying profitability in the current year, functional ambits which will be of critical importance in this year of growth are: internal controls, compliance and audit. Effective internal controls are the foundation of prudent and sound banking. A structure of operational and financial internal control that is well-framed and consistently enforced facilitates a bank's Board of Directors and management to safeguard the bank's resources. It assures them that the bank's operations are efficient, effective, and that its risk management systems are robust.

Moreover, robust internal controls provide assurance that the bank complies with banking laws & regulations, in addition to internal guidelines particularized by the Management and the Board. They also diminish the probability of the occurrence of any irregularities and ensure their timely detection when they do occur.

It is imperative to understand that - though closely related - the functions of internal control and internal audit are fundamentally different in nature, objective and purpose. Internal control entails the systems, policies, procedures, and processes that are affected by a bank's Board of Directors and management to safeguard its assets, eliminate or control risks, and achieve objectives. Internal audit, on the other hand, provides an objective and independent review of the bank's activities, internal controls, and management information systems to assist the Board and management in assessing internal control adequacy and soundness.

A bank's management should design a sound system of policies, controls and procedures that ought to be institutionalized through top-down communication of a strong and integrated culture of compliance; this compliance culture should be further strengthened by being embraced and practiced more diligently by the whole human resource body of the institution. The compliance function is of crucial importance as it liaises with regulators, ensures regulations are adhered to, assists with training employees on regulatory matters and makes certain that policies and procedures stay aligned with regulations and any changes therein.

However, while the Management can design, delineate and communicate an internal control environment, in addition to a strategy, objectives and business initiatives, it cannot implement the same without the support of its human capital muscle – that is, each and all of its valued employees. Hence, banks' efficacy, the all-important and distinctive dynamic of competition and its financial performance is contingent upon the dedicated efforts of its team. Banks' bottom line and efficacy, the all-important and distinctive dynamics of competition and financial performance, therefore, are architected and supported by their human resource bodies – which makes developing and empowering the employees a critical strategic functional arena to focus upon in 2013.

Sirajuddin Aziz
Editor-in-Chief

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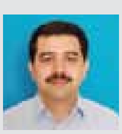

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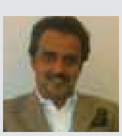

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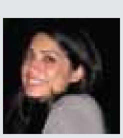

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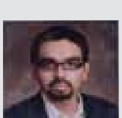

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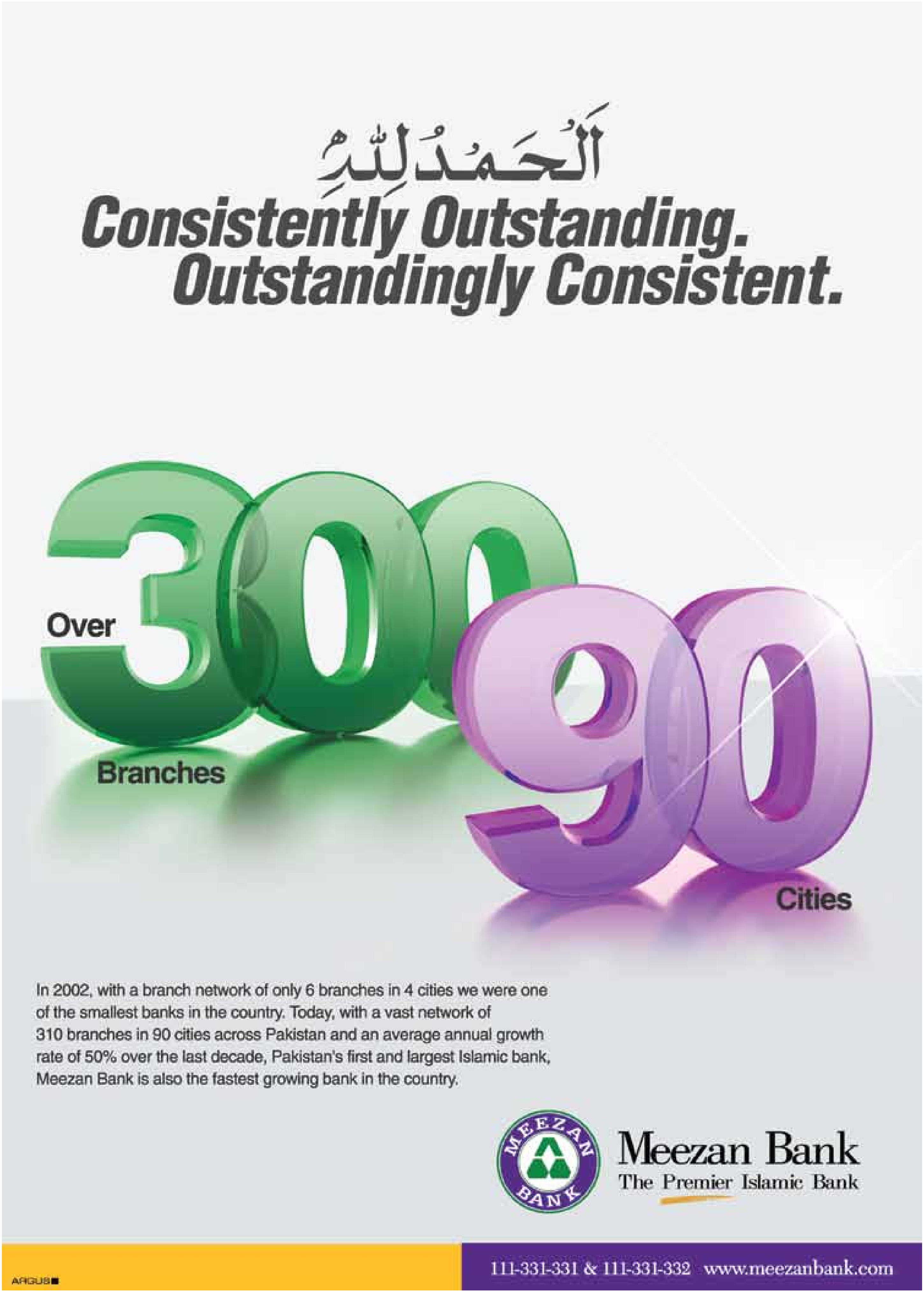

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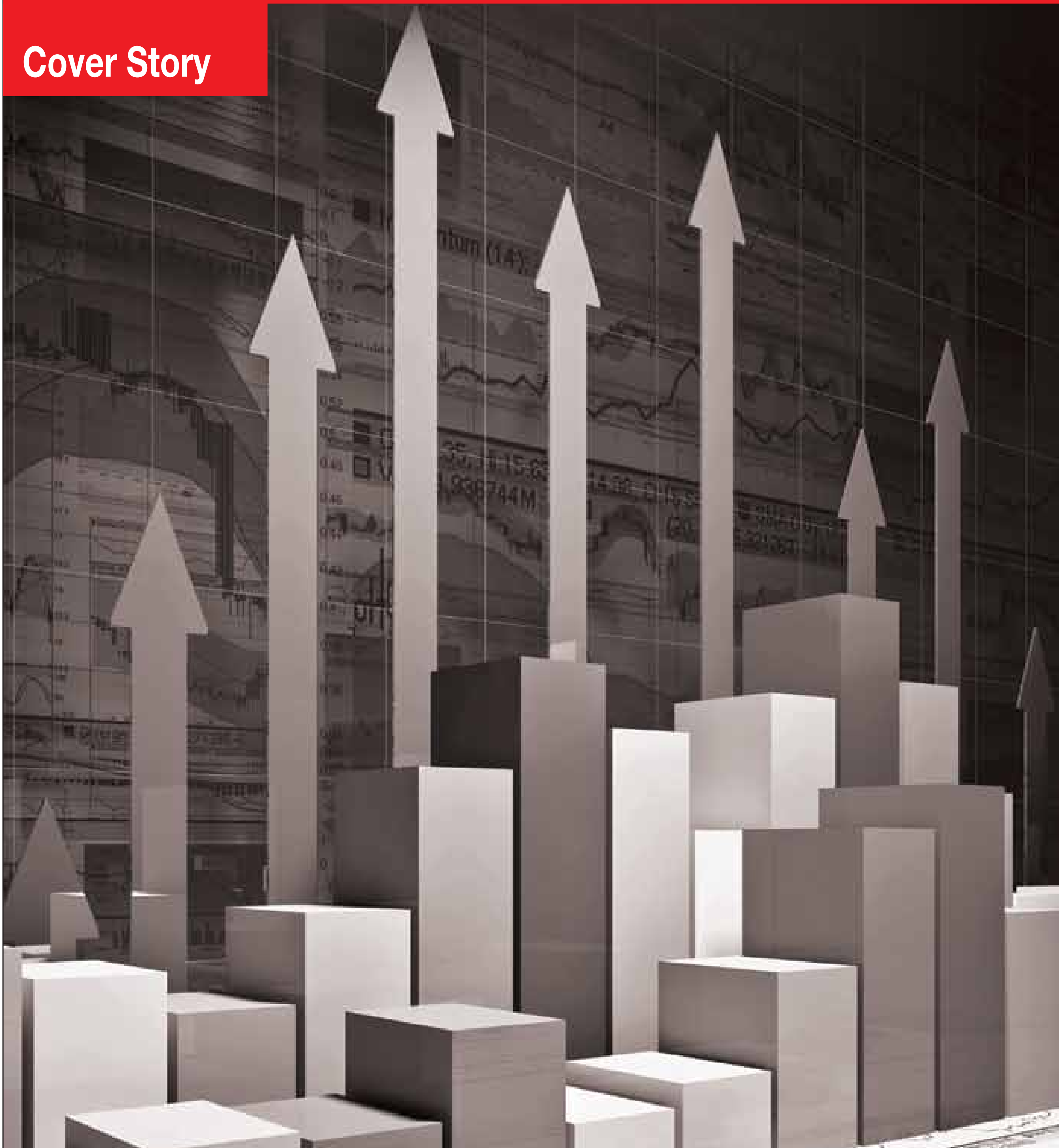


By Saad Hashemy

Financial Performance *of Banks*

A look at 2012 numbers

BANKING SECTOR EARNINGS GROWTH TAPERING OFF

Banks' profitability growth slowed down in the outgoing year, as evidenced by net income growth of 7.1% year-on-year during 2012 compared to 43.6% a year ago (based on our sample of 13 large and mid-size banks). "Big 5" Banks* collectively posted year-on-year profit growth of 4.9% to PKR89bn during 2012 compared to PKR85bn in 2011. While "Mid-Tier" Banks** registered earnings growth of 23.3% to PKR14bn over the same period. UBL reported the highest year-on-year growth of 16.2% in net income among Big 5 banks, while SNBL led the Mid-Tier group with year-on-year earnings growth of 40.9% in during 2012.

Aggregate deposits of banking sector increased by 16.9% year-on-year to PKR5,884bn in 2012 with most of the growth coming from Big 5 banks both in percentage and absolute terms. Total advances went up by 13.2% year-on-year to PKR3,038bn over the same period. Investments exhibited growth of 30.6% to amount to PKR3,188bn during 2012 from PKR2,441bn a year ago, as banks continued to channel more funds to the government than to the private sector.

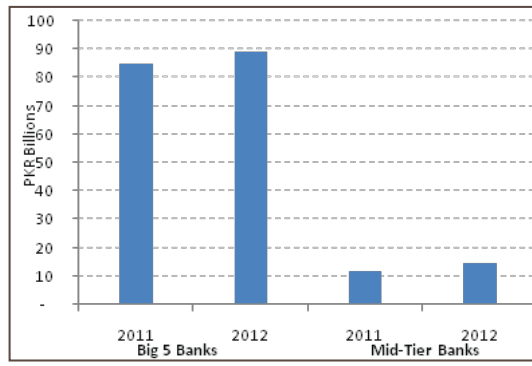
DEPOSITS UP BY 19% FOR BIG BANKS

Big 5 banks increased their deposit base by 19.2% to PKR4,012 on aggregate basis during 2012, while Mid-Tier banks' total deposits increased by 12.1% to PKR1,872bn over the stated period. HBL stood out among the Big 5 banks with year-on-year deposit growth rate of 30.1%, with deposit base increasing to PKR1,215bn at year-end 2012, while SNBL led the Mid-Tier banks with deposit growth of 21.2% and deposit size of PKR121bn. BAFL had the largest deposit base of PKR457bn among Mid-Tier banks. Within the deposit mix, the high cost fixed deposits of Big 5 banks grew at 16% to PKR1,059bn, while Mid-Tier banks' fixed deposits witnessed decline of 5.8% to PKR561bn during 2012. ABL and HMBL experienced year-on-year increase of 43.8% and 13.9% respectively in fixed deposits, leading other banks in their respective groups.

Lower cost current accounts and savings accounts (CASA) displayed year-on-year growth of 20.9% and 22.9% for Big 5 and Mid-Tier banks respectively. During 2012, MCB had CASA-to-total deposits ratio of 83.6% while AKBL had CASA-to-total deposits ratio of 72%, highest among Big 5 and Mid-Tier banks respectively. The recent move by State Bank of Pakistan (SBP) to set a minimum return of 6% on saving deposits on the basis of average monthly balance, instead of minimum balance, will increase cost of funds for banks, putting pressure on interest margins (NIMs) and banking sector's profitability.

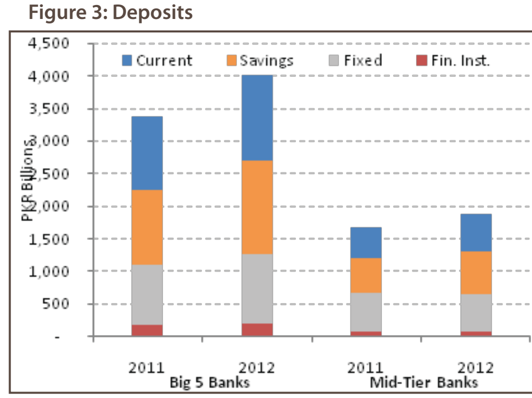
"UBL REPORTED THE HIGHEST YEAR-ON-YEAR GROWTH OF 16.2% IN NET INCOME AMONG BIG 5 BANKS"

Figure 1: Profit After Tax



Source: Banks' Financial Statements

Figure 3: Deposits



Source: Banks' Financial Statements

Figure 2: Profitability Snapshot of Big 5 & Mid-Tier Banks

(PKR Millions)	Big 5 Banks*		Mid-Tier Banks**	
	2012	YoY Change	2012	YoY Change
Net Interest Income	199,211	-6.2%	68,468	3.6%
Non-Interest Income	79,888	29.1%	30,762	23.0%
Provision & Charges	24,059	-31.3%	12,648	-29.4%
Profit After Tax	89,142	4.9%	14,492	23.3%
Return on Equity	18.2%	-1.6%	10.0%	0.8%
Net Interest Margin	4.9%	-1.3%	3.7%	-0.4%
Advances/Deposits Ratio	50.6%	-2.2%	53.7%	-0.4%
Non-Performing Loans (NPL)	248,555	2.3%	163,944	7.2%
NPL Coverage (Specific)	79.2%	2.1%	65.9%	0.5%
Portfolio Infection Rate	11.1%	-1.2%	14.7%	-0.5%
Investments/Deposits Ratio	53.8%	7.9%	54.9%	1.3%
Cost/Income Ratio	43.7%	4.3%	63.5%	0.2%

Source: Banks' Financial Statements

BOTH ADVANCES AND INVESTMENTS INCREASE

Total advances of Big 5 banks increased to PKR2,032bn, exhibiting year-on-year growth rate of 14.2% during 2012, meanwhile the group's total investments displayed growth of 39.8% to PKR2,160bn. Mid-Tier banks' advances increased by 11.2% to PKR1,006bn and the group's investments escalated by 14.8% to PKR1,028bn respectively. NBP and BAHL had the largest percentage growth of 25.2% and 28.7% in advances among Big 5 and Mid-Tier banks respectively, while HBL and NIB boasted the highest percentage growth of 90.4% and 72.2% respectively in investments, among their peers.

Advances-to-deposits ratio (ADR) of Big 5 and Mid-Tier banks dropped to 50.6% and 53.7% respectively during 2012, from 52.9% and 54.1% respectively last year. NBP and NIB had the highest ADRs among their respective groups at 63.3% and 78.4% respectively during 2012. Investments-to-deposits ratio of Big 5 and Mid-Tier banks increased to 53.8% and 54.9% respectively during 2012 from 45.9% and 53.6% respectively a year ago.

> "LOWER COST CURRENT ACCOUNTS AND SAVINGS ACCOUNTS (CASA) DISPLAYED YEAR-ON-YEAR GROWTH OF 20.9% AND 22.9% FOR BIG 5 AND MID-TIER BANKS RESPECTIVELY."

NON-PERFORMING LOANS INCREASE

Non-performing loans (NPLs) of Big 5 and Mid-Tier banks increased by 2.3% and 7.2% year-on-year to PKR249bn and PKR164bn respectively during 2012. MCB registered the largest percentage reduction in NPLs of 4.1% during 2012, while NBP had the highest NPLs to the tune of PKR89bn among Big 5 banks despite its ongoing efforts to make recoveries. Among Mid-Tier banks, NIB posted the largest percentage decline of 3.7% in NPLs to PKR33bn, which remained highest in size among the group.

Portfolio infection rate (as measured by NPLs/Gross Loans) of Big 5 and Mid-Tier banks decreased to 11.1% and 14.7% during 2012 from 12.3% and 15.2% respectively a year ago. ABL and BAHL had the lowest portfolio infection rates of 7.2% and 2.4% respectively during 2012, among their respective categories.

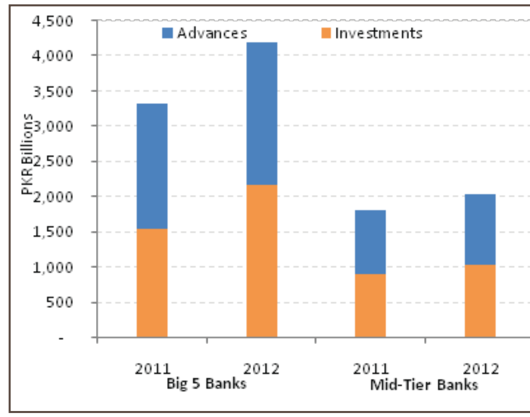
INTEREST YIELD AND NIMS SHRINK

Interest rate reduction of 450 basis points since Aug'11 coupled with increase in minimum profit rate on savings account from 5% to 6% (effective May'12) have put pressure on banking sector spreads by compressing interest yield and increasing cost of deposits, which translated into reduced net interest margins (NIMs as measured by Interest Yield minus Cost of Funds). NIMs of Big 5 and Mid-Tier banks had dropped to 4.9% and 3.7% during 2012 from 6.2% and 4.1% respectively a year ago.

NON-INTEREST INCOME CONTINUE UPWARD TREND

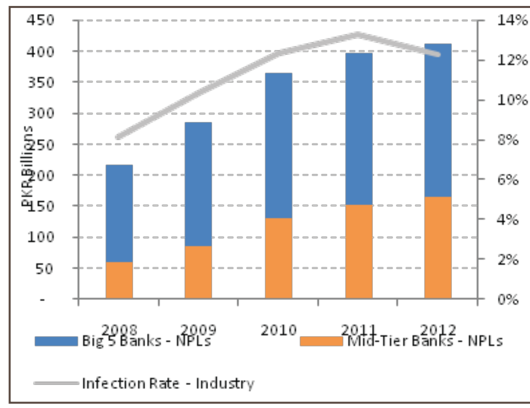
Non-interest income (including fee/commission income, income from dealing in foreign exchange

Figure 4: Earning Assets Composition



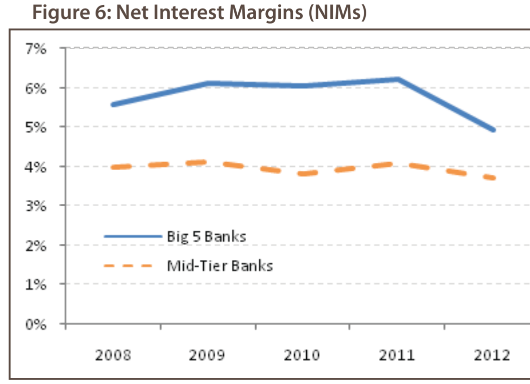
Source: Banks' Financial Statements

Figure 5: NPLs and Portfolio Infection Rates



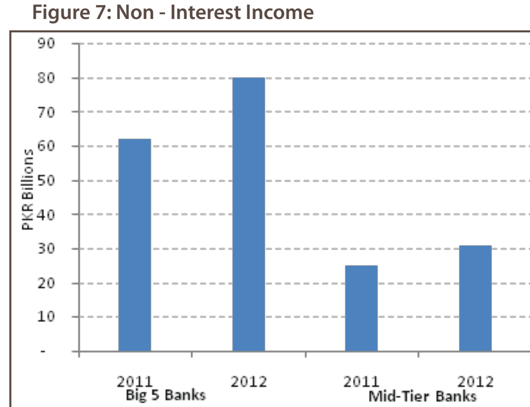
Source: Banks' Financial Statements

Figure 6: Net Interest Margins (NIMs)



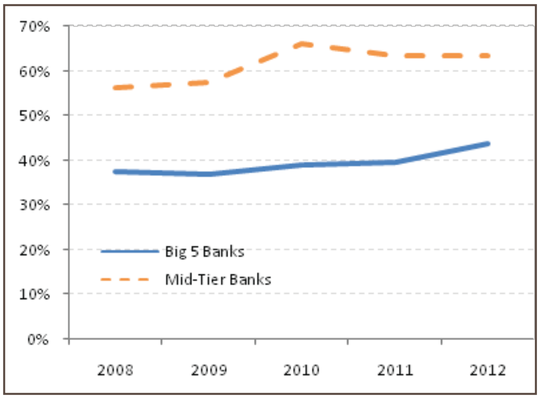
Source: Banks' Financial Statements

Figure 7: Non - Interest Income



Source: Banks' Financial Statements

Figure 8: Cost-to-Income Ratio



Source: Banks' Financial Statements

Key:

* Big 5 Banks	** Mid-Tier Banks
• Allied Bank Limited (ABL) • Habib Bank Limited (HBL) • MCB Bank Limited (MCB) • National Bank of Pakistan (NBP) • United Bank Limited (UBL)	• Askari Bank Limited (AKBL) • Bank Al Habib Limited (BAHL) • Bank Alfalah Limited (BAFL) • Faysal Bank Limited (FABL) • Habib Metropolitan Bank Limited (HMBL) • NIB Bank Limited (NIB) • Soneri Bank Limited (SNBL) • Summit Bank Limited (SMBL)

*Mid-Tier Banks list was subject to availability of detailed financial accounts by March 19, 2013.

and dividend income) remained pivotal to banking sector's profitability as growth in advances remained constrained and good quality high earning assets were difficult to find. Non-interest income of Big 5 and Mid-Tier banks surged by 29.1% and 23% year-on-year to PKR80bn and PKR31bn respectively during 2012. Non-interest income of ABL and SMBL stood at PKR13.8bn and PKR1.4bn, exhibiting the highest year-on-year growth of 98.5% and 88.2% respectively, outperforming other banks in their respective groups. The extra-ordinary growth in non-interest income of Big 5 and Mid-Tier banks was primarily driven by dividend income, which increased to PKR16.4bn and PKR3.6bn respectively, registering year-on-year growth rate of 146.7% and 1.2% respectively during 2012.

COST-TO-INCOME RATIO INCREASE SLIGHTLY

Cost/Income ratio (as measured by Operating Expenses/Sum of Net Interest Income & Non-Interest Income) of Big 5 and Mid-Tier banks had increased to 43.7% and 63.5% during 2012 from 39.4% and 63.3% in 2011. MCB and HMBL had the lowest cost-to-income ratios of 34.1% and 41.8% respectively among their respective group during 2012.

SECTOR OUTLOOK

Interest rate reductions together with increase in minimum profit rate on savings accounts did not bode well with banking sector, which has experienced margin compression and reduction in profitability growth during 2012. The sector's bottom line will take further hit due to recent SBP directive to pay profit on saving/term deposits based on average monthly balance rather than minimum account balance (effective 1st April, 2013). However, high monetary expansion of over 15% during the current fiscal year will likely lead to another year of double digit deposit growth for the industry, shoring up the sector's bottom line this year. Further, with the likely end of the monetary easing cycle and relatively lower levels of provisions, banking sector profits are likely to remain firm in the medium term.

"NON-INTEREST INCOME REMAINED PIVOTAL TO BANKING SECTOR'S PROFITABILITY AS GROWTH IN ADVANCES REMAINED CONSTRAINED"

Source: Banks' Financial Statements

BALANCE SHEET - 2012

PKR Million	BIG FIVE BANKS					MID-TIER BANKS							
	NBP	HBL	UBL	MCB	ABL	BAFL	AKBL	FABL	BAHL	HMBL	NIB	SNBL	SMBL
BALANCE SHEET													
Cash & Treasury Balance	158,333	157,230	94,081	57,420	43,352	58,044	24,435	24,509	27,464	16,919	7,673	11,491	8,110
Deposits with Banks	30,222	47,980	15,234	1,192	1,029	26,721	8,864	1,209	9,745	5,151	961	1,249	3,601
Lending to FIs	8,273	24,828	21,953	1,551	10,721	877	6,319	-	994	-	3,441	1,123	2,039
Investments	343,538	797,095	349,590	402,069	267,403	189,487	145,378	87,995	249,754	160,850	85,386	59,517	49,945
Gross Investments	333,826	794,267	345,958	399,173	264,278	193,473	145,493	89,685	248,250	158,102	85,431	59,216	51,117
Interest Bearing	259,436	776,890	322,572	386,430	247,688	182,853	139,706	83,253	245,079	146,452	78,959	57,845	47,130
Non-Interest Bearing	74,390	17,377	23,387	12,743	16,590	10,620	5,787	6,432	3,170	11,650	6,472	1,371	3,987
Reval Surplus/Deficit	23,428	4,583	5,044	5,680	5,073	2,137	482	630	1,510	3,022	567	461	(154)
Provision for Diminuition	(13,717)	(1,756)	(1,412)	(2,783)	(1,948)	(6,124)	(597)	(2,320)	(6)	(274)	(612)	(160)	(1,018)
Advances	657,381	499,818	364,364	239,583	271,084	233,933	143,727	172,299	147,869	106,911	71,564	76,825	52,549
Local Currency	652,905	366,324	296,656	238,825	286,429	221,813	155,125	187,624	126,989	103,395	90,453	74,399	63,452
Foreign Currency	77,236	133,494	112,434	23,568	2,460	26,533	7,730	3,227	26,474	15,904	4,405	8,856	1,491
Gross Loans	730,141	545,788	409,090	262,392	288,889	248,346	162,855	190,851	153,463	119,300	94,858	83,254	64,942
Domestic	652,905			239,678	287,238	232,525	152,777	188,701	132,930	105,103	91,078	77,270	63,674
Overseas	77,236			22,714	1,651	15,821	10,077	2,150	20,533	14,197	3,780	5,984	1,269
Bad Debt Provisions	(72,760)	(45,970)	(44,727)	(22,809)	(17,805)	(14,413)	(19,128)	(18,552)	(5,594)	(12,389)	(23,294)	(6,429)	(12,393)
Specific	(69,451)	(43,735)	(43,464)	(22,380)	(17,753)	(13,872)	(18,796)	(18,268)	(3,063)	(12,035)	(23,215)	(6,421)	(12,391)
General	(3,309)	(2,236)	(1,263)	(429)	(52)	(541)	(332)	(284)	(2,531)	(354)	(79)	(8)	(2)
Bad Debt Provisions	(72,760)	(45,970)	(44,727)	(22,809)	(17,805)	(14,413)	(19,128)	(18,552)	(5,594)	(12,389)	(23,294)	(6,429)	(12,393)
Domestic	(70,591)	(33,270)	(37,907)	(20,575)	(17,805)		(19,128)	(18,552)	(5,500)	(12,389)	(23,294)	(6,429)	(12,393)
Overseas	(2,169)	(12,701)	(6,820)	(2,234)	-		-	-	(94)	-	-	-	-
Non-Performing Loans	88,742	56,236	57,347	25,562	20,668	22,182	26,518	27,550	3,706	17,729	32,921	9,927	23,410
Domestic	84,536	40,769	47,909	20,961	20,668	21,780	26,518	27,550	3,612	17,729	32,921	9,927	23,410
Overseas	4,206	15,467	9,438	4,601	-	401	-	-	94	-	-	-	-
Operating Fixed Assets	27,950	23,632	24,431	23,738	19,871	13,748	8,841	10,860	11,164	3,000	2,708	4,015	5,385
Intangible Assets	-	-	-	-	-	-	-	-	-	-	1,720	-	-
Deferred Tax Asset	3,481	6,056	-	-	-	385	-	4,419	-	2,275	10,881	293	6,042
Other Assets	80,162	53,670	24,745	40,345	18,455	13,273	15,491	11,773	6,116	5,741	6,274	4,104	6,714
TOTAL ASSETS	1,309,339	1,610,309	894,399	765,899	631,915	536,467	353,056	313,064	453,106	300,846	190,609	158,618	134,385

Bills Payable	14,368	18,943	7,601	9,896	6,203	8,431	3,700	4,244	5,257	4,092	2,430	2,522	1,654
Borrowings from FIs	50,251	196,581	67,214	78,951	38,916	21,228	8,373	35,568	69,622	41,569	76,179	20,398	28,900
Deposits	1,037,785	1,214,964	699,936	545,061	514,707	457,119	306,937	240,713	340,393	217,798	91,291	120,831	96,916
Local Currency	863,449	938,670	505,594	515,608	475,362	381,360	274,501	216,618	301,024	196,253	85,624	109,483	92,267
Foreign Currency	174,336	276,294	194,342	29,453	39,345	75,759	32,436	24,095	39,369	21,545	5,667	11,348	4,650
Domestic	42,085	101,599							39,369				
Overseas	132,251	174,694							-				
Customer Deposits	873,718	1,194,841	686,860	536,274	509,855	423,430	296,734	230,735	334,987	204,032	86,969	120,580	88,623
Fixed	235,122	391,067	193,621	80,650	158,250	103,227	75,647	92,188	96,080	93,541	24,860	38,229	36,804
Savings	313,013	491,761	240,778	268,927	125,840	155,001	155,646	73,677	105,561	54,785	33,575	55,075	31,070
Current - remunerative	96,510	1,446	7,228	-	80,054	-	-	1,659	29,062	-	-	-	-
Current - non remunerative	229,072	310,567	245,233	186,697	145,711	165,202	65,440	63,212	104,284	55,705	28,534	27,276	20,749
FI Deposits	164,067	20,123	13,076	8,787	4,852	33,688	10,204	9,978	5,406	13,766	4,323	250	8,293
Remunerative	76,043	14,154	8,191	6,091	4,464	33,476	9,381	9,759	4,949	13,292	4,069	250	7,912
Non-Remunerative	88,024	5,969	4,884	2,696	388	213	822	218	457	474	254	0	382
Sub-Debt	-	5,441	9,319	-	5,490	5,875	6,987	4,195	6,489	-	3,993	299	1,499
Lease Liabilities	30	-	-	-	-	-	-	-	-	-	-	-	-
Other Liabilities	55,629	41,343	18,887	21,098	15,618	13,567	7,252	7,366	5,480	9,134	2,702	2,215	2,352
Deferred Tax Liabilities	-	-	278	9,142	65	-	118	-	1,934	-	-	-	-
TOTAL LIABILITIES	**1,158,062**	**1,477,271**	**803,235**	**664,148**	**581,000**	**506,219**	**333,368**	**292,086**	**429,175**	**272,593**	**176,596**	**146,265**	**131,323**
Paid-up Capital/HO Balance	18,500	12,123	12,242	9,199	9,463	13,492	8,131	9,274	10,104	10,478	103,029	10,022	10,780
Reserves/Retained Profit	97,535	106,903	65,385	78,958	33,465	12,198	9,547	9,455	11,071	15,589	(89,406)	1,377	(7,883)
Revaluation Surplus	35,243	12,785	13,537	13,594	7,988	4,558	2,011	2,249	2,756	2,186	392	954	166
On Fixed Assets	16,962	9,589	10,260	9,415	3,525	3,169	1,697	1,839	1,760	-	-	644	372
On Investments	18,281	3,196	3,277	4,179	4,462	1,388	313	410	996	2,186	392	310	(206)
TOTAL EQUITY	**151,278**	**131,811**	**91,164**	**101,751**	**50,916**	**30,247**	**19,688**	**20,978**	**23,931**	**28,253**	**14,014**	**12,353**	**3,063**
MINORITY INTEREST	**-**	**1,227**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Source: Banks' Financial Statements

PROFIT AND LOSS STATEMENT - 2012

PKR MILLION	BIG FIVE BANKS					MID-TIER BANKS							
	NBP	HBL	UBL	MCB	ABL	BAFL	AKBL	FABL	BAHL	HMBL	NIB	SNBL	SMBL
PROFIT & LOSS													
Interest Revenue	100,092	116,773	73,507	68,356	49,503	46,080	32,402	28,802	41,468	27,139	13,989	14,068	10,265
Loans & Advances: Customer	70,599	52,639	37,996	28,811	31,457	24,641	17,421	20,867	13,692	11,286	6,872	8,259	6,323
Loans & Advances: FIs	1,406	315	808	-	-	381	46	22	190	12	-	-	146
Investments	25,843	60,500	34,560	39,034	16,976	19,638	14,605	7,830	27,410	15,172	6,496	5,595	3,790
Deposits with FIs	281	1,241	143	40	9	606	153	27	83	188	1	30	7
Interest on REPO	1,964	2,079	-	471	1,061	814	178	55	92	482	620	183	-
Interest Expense	56,418	59,012	34,948	27,500	31,142	27,500	22,974	19,839	26,106	18,833	11,133	9,224	10,138
Deposits	52,374	51,226	27,662	23,043	23,055	22,852	19,110	14,511	19,514	13,505	5,107	7,804	7,399
Subordinated Loan	-	431	1,200	-	248	-	963	589	995	214	603	87	223
Others	4,043	7,356	6,085	4,457	7,839	4,648	2,901	4,738	5,596	5,114	5,422	1,333	2,515
Net Interest Income	**43,674**	**57,760**	**38,560**	**40,856**	**18,361**	**18,580**	**9,428**	**8,963**	**15,362**	**8,307**	**2,856**	**4,844**	**127**
Non- Interest Income	**23,849**	**15,960**	**17,131**	**9,153**	**13,794**	**7,281**	**4,117**	**5,282**	**2,967**	**5,458**	**2,422**	**1,857**	**1,377**
Fees, comm. & Brokerage	10,707	6,786	8,163	5,934	2,570	2,537	1,153	1,858	1,502	2,120	892	804	620
Dividend Income	3,626	490	2,664	1,198	8,433	349	1,036	432	328	653	449	173	142
FX Income	3,703	2,568	1,863	823	598	1,310	885	769	578	1,363	469	237	388
Share of JV	-	1,690	-	-	-	-	-	-	-	-	-	-	-
Capital gain	3,218	1,361	464	825	1,920	1,328	682	1,215	77	1,073	540	356	339
Others	2,595	3,065	3,977	374	272	1,758	361	1,008	482	250	73	288	(112)
Total Revenue	**67,524**	**73,720**	**55,691**	**50,010**	**32,155**	**25,861**	**13,546**	**14,245**	**18,330**	**13,765**	**5,278**	**6,701**	**1,504**
Provisions & other charges	8,529	7,768	5,134	891	1,738	3,874	2,777	1,595	664	2,977	(40)	731	71
Diminuitions: investment	842	(484)	438	(3)	(623)	1,709	344	415	-	32	(232)	30	(41)
Bad Debt Provision	7,155	7,244	3,245	481	1,274	1,849	2,342	989	466	2,661	117	488	34
Bad Debt Direct Write-off	-	-	285	0	-	1	1	(42)	-	-	16	2	40
Others	532	1,008	1,165	413	1,087	315	89	234	198	283	59	211	39
Operating Expense	35,737	31,061	23,528	17,065	14,546	15,204	9,039	10,810	8,796	5,747	5,173	4,248	3,958
Staff cost	25,741	17,784	9,846	7,379	8,224	7,340	4,420	5,050	4,114	2,952	2,494	1,767	1,542
Others	9,996	13,277	13,682	9,686	6,322	7,864	4,620	5,761	4,682	2,795	2,680	2,481	2,416
Non-recurring Items	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of Def. Cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Pre-Tax Profit	**23,258**	**34,891**	**27,029**	**32,054**	**15,870**	**6,783**	**1,730**	**1,840**	**8,869**	**5,041**	**145**	**1,722**	**(2,525)**
Taxation	7,095	12,535	9,022	11,113	4,195	2,227	474	417	3,423	1,638	107	618	209
Profit After Tax	**16,163**	**22,356**	**18,007**	**20,941**	**11,676**	**4,556**	**1,255**	**1,423**	**5,447**	**3,403**	**38**	**1,104**	**(2,734)**
Dividends Declared													

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Jahan Khwab, Wahan HBL

Mera bhi tou hai.

Today we crossed another milestone in our family history, another coming of age. But this was the nearest and dearest one yet - my son. We spent the day together in my office and it was a trip down memory lane.

He explored my desktop, changed the photographs around, swiveled my chair, listened in on my calls and even ordered coffee! I bounced business ideas off him and took pride in the beginnings of his acumen. Out of sheer habit, I asked him to call 'my bank'. He turned to look at me quizzically, one eyebrow raised in genetic replication and said, 'But Abba, mera bhi tou hai.'

You see, that sense of belonging pervades the fabric of our family. And generation after generation we proudly lay claim to the Bank that is ours.

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Source: Banks' Financial Statements

BALANCE SHEET 2008 - 2012										
	BIG FIVE BANKS					MID-TIER BANKS				
PKR MILLION	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
BALANCE SHEET										
Cash & Treasury Balance	276,392	322,040	341,217	410,894	510,415	97,333	105,667	134,248	155,734	178,646
Deposits with Banks	91,346	81,470	88,504	93,277	95,658	37,777	46,965	35,637	42,432	57,501
Lending to FIs	66,020	79,225	81,190	100,168	67,327	27,700	44,600	28,960	28,269	14,793
Investments	595,871	832,180	1,115,046	1,544,892	2,159,695	298,028	549,850	647,543	895,825	1,028,312
Gross Investments	624,245	837,402	1,124,308	1,559,693	2,137,502	307,719	553,152	657,080	906,164	1,030,767
Interest Bearing	553,012	764,779	1,047,875	1,426,557	1,993,015	265,547	510,581	612,705	851,532	981,277
Non-Interest Bearing	71,233	72,623	76,433	133,136	144,487	42,172	42,571	44,375	54,633	49,489
Reval Surplus/Deficit	(17,150)	7,624	8,060	6,401	43,808	(5,986)	183	(3,482)	(520)	8,656
Provision for Diminuition	(11,224)	(12,848)	(17,322)	(21,202)	(21,616)	(3,705)	(3,483)	(6,057)	(9,820)	(11,110)
Advances	1,715,964	1,774,591	1,777,886	1,779,774	2,032,230	763,384	773,952	907,257	904,072	1,005,677
Local Currency	1,517,214	1,644,842	1,625,452	1,619,821	1,841,140	742,834	771,374	907,087	914,753	1,023,250
Foreign Currency	284,735	242,770	283,519	308,270	349,192	60,659	60,351	89,552	93,133	94,619
Gross Loans	1,830,044	1,922,960	1,951,666	1,974,177	2,236,301	808,617	831,722	996,640	1,007,886	1,117,869
Domestic	393,164	981,619	995,944	1,018,473	1,179,821	598,002	795,452	954,003	939,179	1,044,058
Overseas	64,664	68,852	84,585	85,944	101,602	11,803	36,270	42,637	68,707	73,811
Bad Debt Provisions	(113,934)	(148,370)	(173,779)	(194,403)	(204,071)	(45,017)	(57,770)	(89,384)	(103,814)	(112,192)
Specific	(108,928)	(144,114)	(166,401)	(187,275)	(196,783)	(40,818)	(54,034)	(85,316)	(100,061)	(108,061)
General	(5,006)	(4,256)	(7,378)	(7,128)	(7,288)	(4,199)	(3,736)	(4,068)	(3,753)	(4,131)
Bad Debt Provisions	(113,934)	(148,370)	(173,779)	(194,403)	(204,071)	(45,017)	(57,770)	(89,384)	(103,814)	(112,192)
Domestic	(61,785)	(115,381)	(153,868)	(173,650)	(180,148)	(38,876)	(48,409)	(78,104)	(90,883)	(97,685)
Overseas	(11,153)	(16,515)	(19,911)	(20,753)	(23,923)	-	-	-	(1)	(94)
Non-Performing Loans	156,396	198,982	232,075	242,944	248,555	59,054	86,463	131,733	152,972	163,944
Domestic	138,129	171,801	202,296	212,946	214,843	27,662	86,163	131,623	152,861	163,448
Overseas	18,267	27,182	29,778	29,998	33,712	-	300	110	111	495
Operating Fixed Assets	85,388	94,302	101,774	109,698	119,623	43,139	47,138	55,363	60,126	59,721
Intangible Assets	-	-	-	-	-	26,664	26,943	2,419	2,054	1,720
Deferred Tax Asset	18,477	12,877	18,307	17,954	9,537	8,164	9,069	19,953	25,307	24,294
Other Assets	133,474	159,165	155,828	179,465	217,376	35,602	48,896	60,656	67,055	69,486
TOTAL ASSETS	2,982,931	3,355,850	3,679,753	4,236,124	5,211,861	1,337,791	1,653,080	1,892,037	2,180,874	2,440,151

Bills Payable	38,745	37,173	37,212	42,360	57,011	14,941	18,025	19,945	24,159	32,332
Borrowings from FIs	182,058	217,446	152,128	204,892	431,913	118,675	250,107	218,990	265,724	301,838
Deposits	2,333,339	2,598,731	2,932,829	3,364,783	4,012,452	1,026,784	1,184,896	1,458,292	1,669,786	1,871,998
Local Currency	1,878,839	2,119,711	2,445,944	2,773,413	3,298,682	899,628	1,031,795	1,269,428	1,478,654	1,657,130
Foreign Currency	454,501	479,019	486,883	591,370	713,770	127,155	153,101	188,866	191,132	214,868
Domestic	72,577	83,356	95,373	115,848	143,684	37,417	47,064	71,681	77,509	39,369
Overseas	214,934	219,991	201,492	264,933	306,945	-	-	-	-	-
Customer Deposits	2,203,865	2,487,719	2,810,537	3,182,124	3,801,548	995,240	1,132,029	1,381,438	1,594,343	1,786,090
Fixed	682,737	715,060	772,291	912,614	1,058,710	422,680	441,650	514,943	595,288	560,576
Savings	830,446	947,775	1,084,128	1,164,191	1,440,319	293,370	375,780	461,967	528,205	664,391
Current - remunerative	93,527	126,767	130,538	146,134	185,238	16,866	21,274	29,227	27,252	30,721
Current - non remunerative	597,154	698,117	823,580	959,185	1,117,280	262,323	293,325	375,301	442,090	530,402
FI Deposits	129,476	111,012	122,290	182,660	210,904	31,545	52,871	76,854	76,952	85,908
Remunerative	50,614	57,461	54,477	90,075	108,943	31,133	52,069	74,580	75,313	83,088
Non-Remunerative	78,862	53,551	67,813	92,585	101,961	413	802	2,274	1,639	2,820
Sub-Debt	18,447	21,699	21,762	21,846	20,250	14,611	24,606	28,189	32,317	29,338
Lease Liabilities	25	42	107	76	30	329	-	-	-	-
Other Liabilities	116,458	113,646	122,439	142,337	152,575	38,870	38,020	48,619	49,952	50,067
Deferred Tax Liabilities	437	3,199	4,934	6,295	9,485	3,436	1,330	845	1,315	2,052
TOTAL LIABILITIES	**2,689,509**	**2,991,936**	**3,271,411**	**3,782,590**	**4,683,715**	**1,217,647**	**1,516,984**	**1,774,881**	**2,043,253**	**2,287,624**
Paid-up Capital/HO Balance	39,424	45,022	51,139	57,046	61,527	65,709	88,741	96,993	170,907	175,309
Reserves/Retained Profit	220,396	263,499	299,993	340,779	382,245	51,381	39,575	15,495	(42,296)	(38,053)
Revaluation Surplus	32,712	54,250	55,996	54,472	83,147	3,054	7,780	4,668	9,010	15,271
On Fixed Assets	43,896	47,589	48,431	48,817	49,751	6,978	7,142	6,856	9,298	9,481
On Investments	(11,184)	6,661	7,565	5,655	33,396	(3,924)	638	(2,190)	(288)	5,789
TOTAL EQUITY	**292,532**	**362,771**	**407,128**	**452,297**	**526,919**	**120,144**	**136,096**	**117,156**	**137,621**	**152,527**
MINORITY INTEREST	**890**	**1,143**	**1,212**	**1,236**	**1,227**	**-**	**-**	**-**	**-**	**-**

Source: Banks' Financial Statements

PROFIT AND LOSS STATEMENT 2008 - 2012

PKR Million	BIG FIVE BANKS					MID-TIER BANKS				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
PROFIT & LOSS										
Interest Revenue	247,187	307,621	328,887	384,317	408,231	118,797	149,800	169,227	206,348	214,213
Loans & Advances: Customers	181,450	220,724	215,909	223,108	221,502	85,714	98,692	102,240	112,071	109,360
Loans & Advances: FIs	1,696	2,136	2,941	2,819	2,528	841	865	1,370	1,131	797
Investments	51,960	73,413	99,386	148,481	176,913	25,104	45,281	60,997	89,070	100,537
Deposits with FIs	5,769	2,817	1,561	1,523	1,714	3,498	2,830	3,028	978	1,094
Interest on REPO	6,243	8,531	9,090	8,385	5,574	3,640	2,133	1,591	3,098	2,424
Interest Expense	103,363	140,324	144,992	171,987	209,020	75,625	100,323	115,662	140,241	145,746
Deposits	87,317	122,022	125,307	147,623	177,360	64,640	80,553	88,034	108,014	109,803
Subordinated Loan	1,557	2,226	2,320	2,333	1,879	1,005	1,192	2,355	3,639	3,675
Others	14,488	16,075	17,537	22,031	29,781	9,980	18,578	25,275	28,588	32,268
Net Interest Income	**143,824**	**167,297**	**183,895**	**212,330**	**199,211**	**43,172**	**49,477**	**53,564**	**66,107**	**68,468**
Non- Interest Income	**48,788**	**53,457**	**52,422**	**61,900**	**79,888**	**20,807**	**19,135**	**21,602**	**25,020**	**30,762**
Fees, comm. & Brokerage	23,922	26,211	28,023	30,492	34,159	7,800	7,546	8,561	10,115	11,485
Dividend Income	5,773	4,625	3,695	6,653	16,412	4,165	2,029	1,937	3,519	3,562
FX Income	9,849	7,258	8,105	10,531	9,555	5,874	4,200	5,124	6,311	5,999
Share of JV	844	488	714	1,081	1,690	-	-	-	-	-
Capital gain	1,616	6,907	4,800	4,972	7,787	417	2,620	2,602	871	5,609
Others	6,783	7,968	7,085	8,171	10,284	2,550	2,740	3,378	4,204	4,108
Total Revenue	**192,612**	**220,754**	**236,317**	**274,230**	**279,099**	**63,979**	**68,612**	**75,166**	**91,127**	**99,230**
Provisions & other charges	38,853	48,891	36,746	34,996	24,059	25,050	18,082	28,689	17,922	12,648
Diminuitions: investment	8,968	4,435	4,845	4,792	170	3,313	2,291	3,625	3,514	2,257
Bad Debt Provision	25,089	39,214	27,342	24,711	19,399	20,005	15,298	23,479	12,464	8,945
Bad Debt Direct Write-off	1,370	1,528	1,049	369	285	293	127	177	57	18
Others	3,426	3,714	3,510	5,124	4,205	1,439	366	1,407	1,887	1,429
Operating Expense	71,962	81,456	91,778	108,087	121,938	35,910	39,298	49,684	57,705	62,976
Staff cost	38,148	44,967	50,535	61,017	68,974	17,125	16,831	23,702	26,859	29,678
Others	33,814	36,489	41,243	47,070	52,964	18,785	18,943	25,982	30,846	33,298
Non-recurring Items	-	-	-	-	-	-	-	-	-	-
Amortization of Def. Cost	-	-	-	-	-	1,040	-	-	-	-
Pre-Tax Profit	**81,797**	**90,407**	**107,793**	**131,147**	**133,102**	**1,979**	**11,232**	**(3,207)**	**15,500**	**23,606**
Taxation	27,608	27,634	36,937	46,145	43,960	440	3,662	278	3,744	9,114
Profit After Tax	**54,189**	**62,773**	**70,856**	**85,002**	**89,142**	**1,539**	**7,570**	**(3,485)**	**11,756**	**14,492**

Associate Chartered Bankers*
as of February 2013

The Institute of Bankers is pleased to announce the names of the candidates who have completed the requirements and have become eligible for the Associate Chartered Banker title.

AlBaraka Bank Ltd

Ahmed Nasir

Allied Bank Limited

Adnan Faisal
Tariq Aziz
Muhammad Imran
Hafza Tehmina Zia
Muhammad Ali Sheikh
Ali Mesum
Waqar Ahmad

Askari Bank Limited

Khurram Shaheen
Farooq Muhammad
Muhammad Asif Khan

Bank Alfalah Limited

Nida Mansoor
Mohsin Rehman
Muhammad Jawad Iqbal Khan
Ishtiaq Ali

Bank Al Habib Limited

Syed Ali Naqi Kazmi
Muhammad Rehan Aslam
Muhammad Hani Lakhani
Asif Raza
Muhammad Kumail Jivani

Dubai Islamic Bank Pakistan Ltd

Shafqat Raza

Faysal Bank Limited

Adnan Khan

Habib Metropolitan Bank Ltd

Mohammad Taqi Merchant

JS Bank Limited

Shahzad Ramzan
Syed Kamran Arif

MCB Bank Limited

Momina Abbas
Naeem Ur Rehman
Maryam Saeeda
Umar Farooq
Asad Ullah
Junaid Saeed
Rehmat Sarfaraz
Haider Rauf
Zulfiqar Ali
Saad Zikar Jangda
Muhammad Zuhaib Qureshi
Muhammad Usman
Muhammad Omar Ayub Khan
Usman Mushtaq

Meezan Bank Limited

Omair Muhammad Khan

National Bank Of Pakistan

Azhar Hussain
Muhammad Usman Janjua
Arsalan
Adiba Iram
Faisal Khurshid Haider
Kanwal Munawar
Umer Bilal
Abdul Rauf
Ahmed Nawaz
Ali Shoaib
Faheem Shahid
Muhammad Faheem Arshad
Iqra Khan
Syed Faisal Shah
Faisal Tariq
Zeeshan Adeel
Sheraz Ashraf Bajwa
Syed Zaffar Hassan Naqvi
Kiran
Mahmood Akhtar Nadeem
Shoaib Masood
Frasat Ali
Muhammad Afzal
Muhammad Zeeshan Manzoor
Nighat Malik
Sh. Khurram Abid

Others Professionals

Rabia Rashid
Mukesh Kumar
Syed Muhammad Amin Kazmi

Soneri Bank Limited

Muhammad Aslam
Shamsuddin
Syed Talha Alam
Sanjay Kumar
Madiha Andleeb
Sanya Hyder Ali
Waqas Khan

Standard Chartered Bank

Nizar

State Bank Of Pakistan

Shaista

The Bank Of Khyber

Ikramullah Khan
Imran Waseem
Tariq Pervez

The Bank Of Punjab

Ahsan Javed
Muhammad Mazhar Munir

The Punjab Provincial Co-Operative Bank Limited

Syed Muhammad Shoaib Sajjad
Yasir Mahmood Zafar

United Bank Limited

Rufi Shahzada
Khawaja Jaffer Abbas
Ammar Ahmed
Farhana Muhammad Hussain
Qasim Raza Khawaja
Mirza Muhammad Ali
Summya Jamal Rustom

The Institute of Bankers Pakistan

Chartered Banker
Leading financial professionalism

* Eligible

BANK CORPORATE GOVERNANCE

Unfinished Business

By Professor Ted Gardener

The global financial crisis that began in 2007 has challenged strongly held views on how banks should be regulated, organised and run. Central to this continuing debate is the question of bank corporate governance. Weak corporate governance did not cause the crisis but it was an important contributory factor.

CORPORATE GOVERNANCE AND DEREGULATION

Corporate governance is concerned with the actions that shareholders (owners of the business) may take to influence and discipline managers' decisions. This finance view of corporate governance is integral to the so-called 'free market model' of shareholder wealth maximisation.

In many banking systems across the globe, banks have been increasingly liberalised and deregulated during recent years in order that their respective economies may benefit from the efficiencies that can arise from greater competition and more innovation – these are the policy-targeted benefits of the freer market model. This model, in turn, requires that bank corporate governance 'works' and is effective.

Despite the many banking and financial crises of the modern era, this deregulation model has remained a generally favoured economic policy. Although the latest and most severe financial crisis has prompted much debate and re-thinking about supervisory and other kinds of bank regulation, corporate governance remains an unresolved problem.

REGULATORY RESPONSE

There has been a post-crisis proliferation of studies and reports on bank corporate governance. Two main schools of thought can be identified. A shareholder-dominant approach

> **"Despite the many banking and financial crises of the modern era, the deregulation model has remained a generally favoured economic policy."**

(typified by the UK Walker study) and a stakeholder-based one (typified by the Basel Committee and the EU). In this latter model, multiple stakeholders (not just shareholders) and their respective objectives are more strongly emphasised.

At one level, there has been a major bank regulatory response to the lessons of the global financial crisis. In the vanguard is the new Basel 3 supervisory proposals for prudential capital adequacy and liquidity. More and stronger legislation (like the US Dodd-Frank Act of 2010) also typify an important policy response. Another important move in the US and UK is to separate or 'ring-fence' retail (or 'utility') from investment (so-called 'casino') banking.

Improved banking regulation and better legislation may be necessary but are they sufficient in themselves? Many would argue that they are not.

BANKS ARE DIFFERENT

An important line of thinking and respective policy development must start from the reality that banks are 'different' compared with non-banking firms. If these important differences are recognised and addressed, the deregulation model may be applied more confidently and successfully (that is with a reduced probability of systemic risk events occurring).

These differences are de facto 'market failures' in applying the free market, deregulation model. A 'market failure' in this context means simply that a completely free market approach

“Improved banking regulation and better legislation may be necessary, but are they sufficient in themselves?”

by itself for incentivising the best kind of resource allocation by banks is constrained or impeded.

These kinds of 'market failure' typify modern banking but many of them are also necessary for banks to carry out their main economic role of borrowing short and lending longer (so-called maturity intermediation). This key banking function is important for sustaining real economic develop

"AN EXCESSIVELY STRICT REGULATORY RESPONSE HAS ITS OWN PROBLEMS. BANKS MAY ATTEMPT TO INNOVATE AROUND EXCESSIVELY TIGHT REGULATIONS AND MOVE INTO MORE RISKY AREAS."

ment. Important examples of these kinds of necessary 'market failures' in banking systems include the central bank lender of last resort function, deposit insurance and 'too big to fail' regulatory interventions.

The 'costs' of these kinds of banking-unique regulatory interventions are borne ultimately by government and taxpayers. These costs can be high (especially in a crisis).

WHERE DOES THIS LEAD?

These kinds of necessary regulatory interventions enable banks to operate with higher levels of leverage and risk than would otherwise be possible in a completely free market (where banks are treated like any other non-bank company). There has to be a price and a required level of professional responsibility assumed for these economic privileges and responsibilities. In the context of required, post-crisis bank corporate governance, these considerations lead to a number of important conclusions.

More effective risk governance by banks and respective regulatory controls to ensure this are important lessons from the crisis. Basel 3 and national regulators address some of the important challenges but an excessively strict regulatory response has its own problems. For example, banks may attempt to innovate around excessively tight regulations and move into more risky areas. Therefore, ever tighter banking regulations may ultimately be self-defeating and even risk-producing.

The standard corporate finance model of corporate finance also needs to be expanded in order to recognise the 'market failures' associated with banking. In particular, senior bankers should have fiduciary responsibilities to their depositors as well as shareholders. This means in practice that there may be legal consequences if they engaged in acts that are imprudent enough to increase the chances of a systemic risk event. There is also a strong argument that senior bank supervisors should also have similar 'fiduciary duties' to depositors.

There is no 'quick fix' or easy solution to the fundamental challenge of bank corporate governance. Another important lesson from the crisis is that there needs to be a renewed emphasis on professionalism in banking and the internal development of more responsible banking cultures. There has to be a return to seeing banking as a profession with attendant economic and social responsibilities. Ultimately, this is likely to be the single, most important contribution to the post-crisis challenge of bank corporate governance.

By Andrew Stone

The tale of the whistleblower

The issue of how whistleblowers are treated and what support they are offered by regulators and lawmakers has never been more timely, as Andrew Stone reports.

Being a whistleblower isn't easy. Just ask Paul Moore, sacked as HBOS Head of Group Regulatory Risk in 2004 after warning his employers that they were taking excessive risks. He turned whistleblower in the aftermath of the crisis, exposing the aggressive and reckless lending culture to Parliament in 2009, and he has suffered for it ever since.

"I know to my own detriment what happens as a result of becoming a public whistleblower," says Moore, whose career was left in ruins. "As a whistleblower you become like a leper, a pariah. I had an impeccable reputation in my profession, but since I went public I have not been offered a single consulting job or been approached by any headhunters. Even people who have worked with me and know I know what I'm talking about can't touch me because they feel it will impact on their career."

The resulting professional and financial pain has only been part of the difficulties he has endured, which he is writing about for a forthcoming book. There is nothing so wounding to a person, observes Moore, than being punished for doing the right thing. "It's a hard thing to live with personally. I've spoken to other whistleblowers and I know that there are lots of mental health issues."

Moore is not alone in having had a tough time following the decision to become a whistleblower. When UBS employee Brad Birkenfield exposed tax evasion at the Swiss bank in the US, he was jailed, although ultimately he received a record $104m IRS reward for his trouble.

The issue of how whistleblowers are treated and what support they are offered by regulators and lawmakers when they seek to expose wrongdoing is an especially timely one following a slew of fraud and misselling scandals, including alleged wrongdoing relating to LIBOR manipulation, money laundering, PPI misselling and the reckless (and sometimes criminal) lending that led to the financial crisis.

And as the UK's Financial Services Authority consults on the exact nature of the role and remit of the incoming Financial Conduct Authority (FCA), which comes into being on April 1, whistleblowing is one of the issues it is looking at, as part of the wider ongoing shake-up of the UK's financial regulation that aims to make finance cleaner and safer.

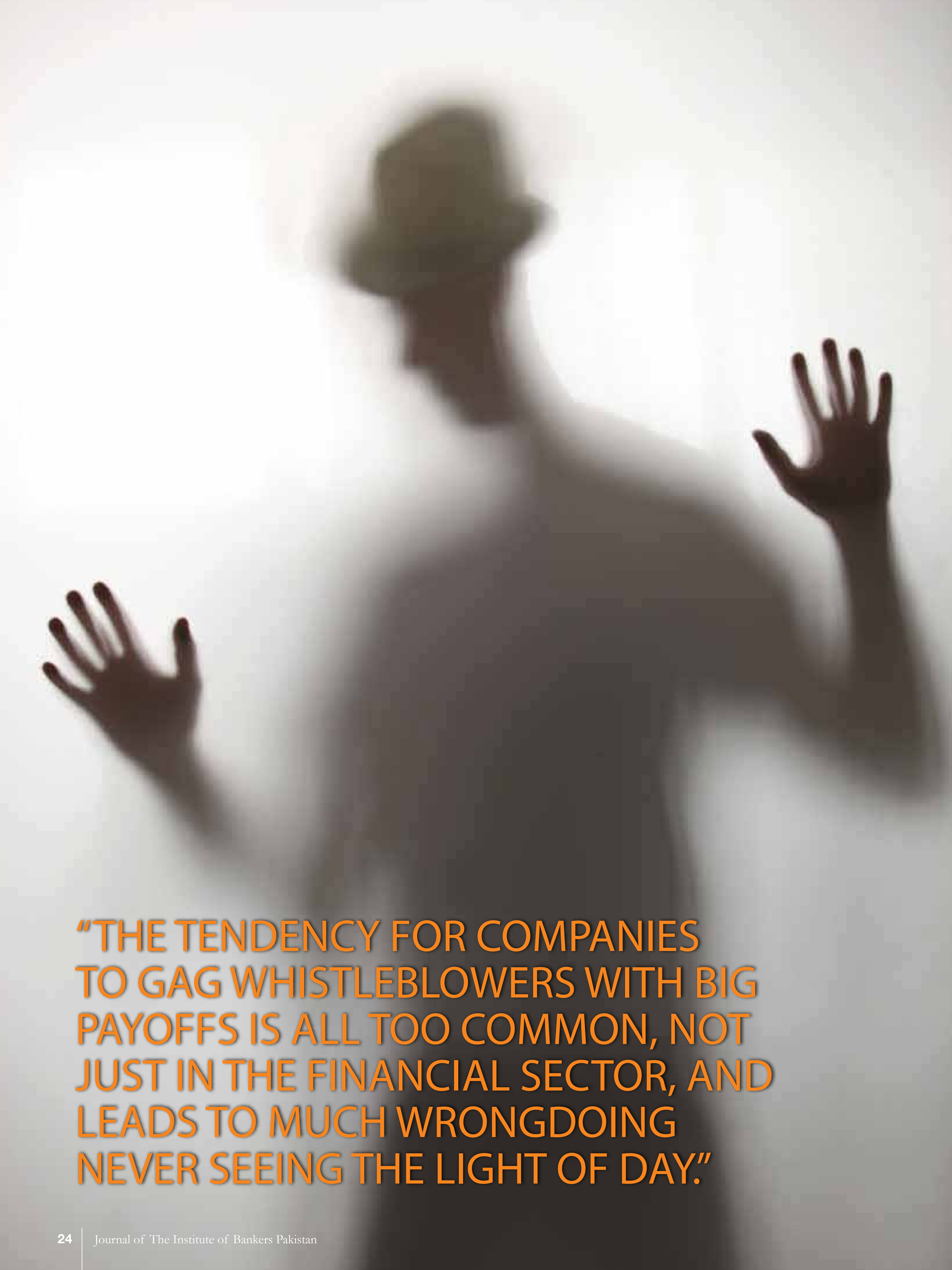
If the FCA (headed by former Chairman of Hong Kong's Securities and Futures Commission, Martin Wheatley) does hope to make it easier for whistleblowers to expose wrongdoing within the financial sector, it is likely to have its work cut out, says anthropologist and business journalist Joris Luyendijk.

The factors deterring whistleblowers are considerable, says Luyendijk, who has been speaking extensively to employees in the banking sector for his Guardian banking blog. There are strong cultural, legal, psychological and financial reasons why public whistleblowing is such a rarity, he says.

The great emphasis on performance and performance-related reward in sections of the financial world is one of the biggest factors preventing the exposure of wrongdoing, says Luyendijk. "If you look at the incentive structure of many people, particularly those in the front office in finance, there's no job security, zero trust and zero loyalty. If you know everyone around you can be fired in five minutes, it's not a nurturing environment for whistleblowing."

Banks are, by their nature, divided organisations locked in a kind of continual struggle between the money makers and the compliance people, he adds. "You could best see the banks as nations in a permanent state of civil war. Inside them there are people tasked with finding fraudulent activity, while others are tasked with making money. "

"Seen in this light, it's possible to argue that the tougher regulation being imposed by national, European and other interna



“THE TENDENCY FOR COMPANIES TO GAG WHISTLEBLOWERS WITH BIG PAYOFFS IS ALL TOO COMMON, NOT JUST IN THE FINANCIAL SECTOR, AND LEADS TO MUCH WRONGDOING NEVER SEEING THE LIGHT OF DAY.”

tional regulators on banks may, paradoxically, only widen this divide, he adds. "You could say that more regulation on banks forces them, in an indirect way, to take more risks to pay for the compliance."

Chris Skinner, industry commentator and Chairman of networking group the Financial Services Club, sees a lack of support for whistleblowers from regulators, together with weak corporate law as further impediments to potential whistleblowers.

"In the US under Dodd Frank, you have to take the bank to court yourself and only if the Feds believe you have a good case, will they join your case and if you win you get a percentage," says Skinner.

"That says to me right now there is not really the will to help whistleblowers and there's even less structure and chance of getting the authorities on your side in Europe and the UK."

As a result, the career risks of whistleblowing are still too high, says Skinner. "There should be an independent third party you can go to confidentially and get due diligence done without your name being associated and also with the understanding that you will be supported by the authorities if you have a case.

”Moore adds that the tendency for companies to gag whistleblowers with big payoffs is all too common, not just in the financial sector, and leads to much wrongdoing never seeing the light of day.

Although it is very early days, the FCA is promising to help whistleblowers in the UK financial sector once it comes into being, including a dedicated phone and email contact specifically for whistleblowers. In its document Journey to the FCA, it sets out its aim to "improve the way we gather intelligence...including listening to comments from consumer organisations and whistleblowers… creating a bolder organisational culture, and adopting a new style of supervision."

It promises that the information received will be analysed and investigated and adds

"WHERE PROFIT IS THE SOLE MEASURING STICK OF EVERYTHING YOU ARE BOUND TO END UP WITH PEOPLE DOING BAD THINGS."

that "we will place significant value on whistleblowing alerts and seek to provide as much useful feedback to the whistleblower as possible".

An FSA spokesperson said the existing whistleblowing hotline had more than 3,000 calls last year, although it does not track directly what proportion or type of calls resulted in exposure of wrongdoing. He added that the FCA will be open to all relevant sources of information into wrongdoing: "In speeches Martin Wheatley has said we are open to using a wider range of sources in future for information from whatever source is appropriate."

Much more needs to be done, however, to create a more open culture and a legal approach both inside and outside of banks and other regulated financial businesses if whistleblowing is to be truly encouraged, says Moore.

"There should be additional protections for those in control functions. They should report to a specialist oversight and assurance non-exec who represents them on the board and spends two to three days a week there. If there is a desire to dismiss someone from the control function, there has to be a proper hearing.

"I think we also have to phase in proper competence and credibility of the control function. We need to have a proper, chartered, professional qualification for these people."

It should also be incumbent on companies to carry out thorough and robust investigations when wrongdoing is alleged, he adds. "There is a big risk if you take the statements of the manager, who tells you everything is fine, at face value without calling in the auditor or compliance officer to check. Self-serving statements without corroboration should bear no weight."

Corporate law, which was not designed for balance sheets the size of countries, also needs to be amended. The huge potential rewards resulting from the scale of these balance sheets can be corrosive for the moral judgement of the individuals in charge of them, says Moore.

"We need to find a way of changing the way company law works to recognise that if profit becomes a person's exclusive goal they will become morally and legally relative if they can get away with it. Where profit is the sole measuring stick of everything, you are bound to end up with people doing bad things or losing perspective about right and wrong."

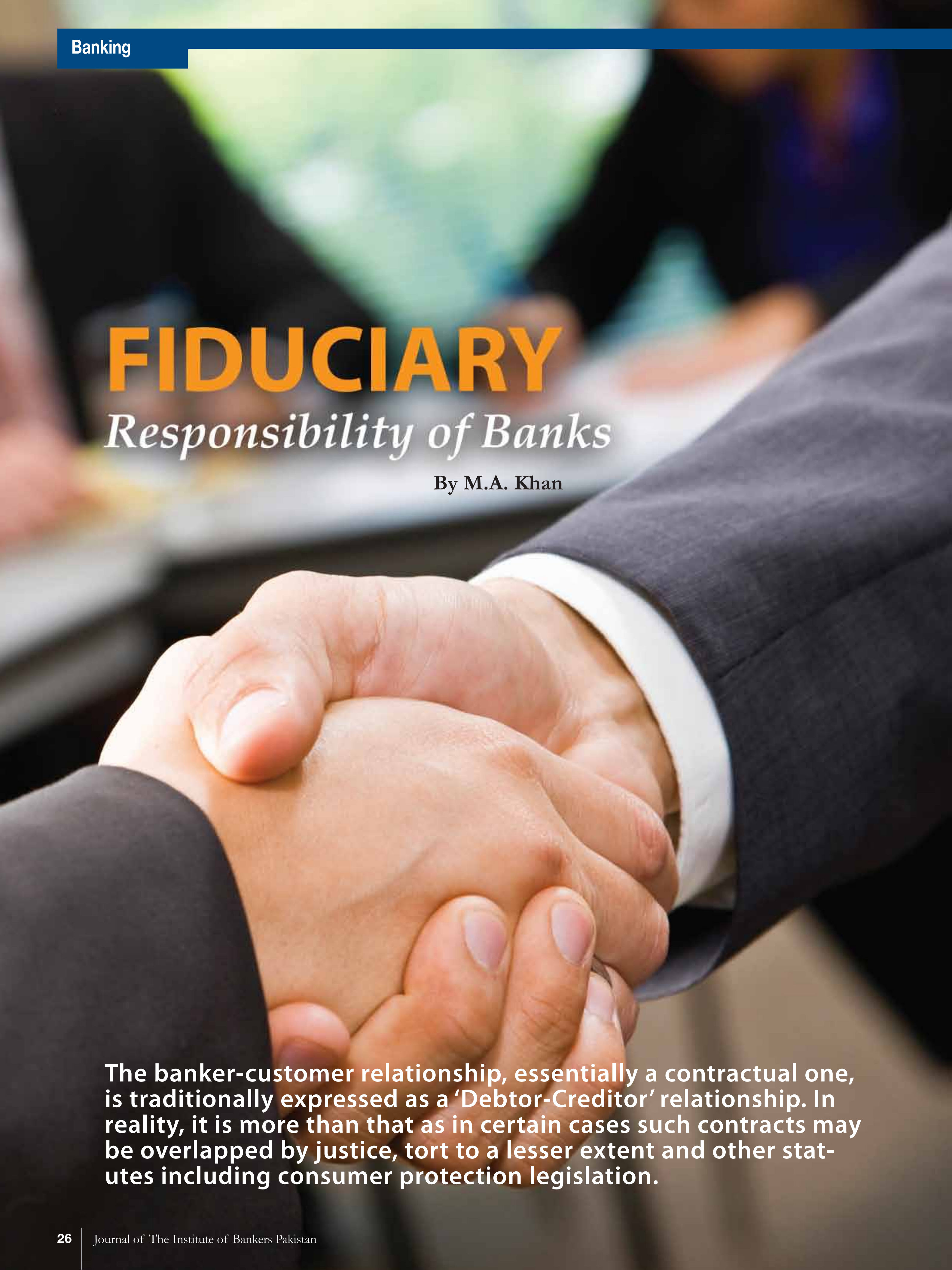
Another fact of human nature makes the act of whistleblowing a risky option – the tendency to shoot the messenger and to shun the insider who goes against the prevailing culture even though they speak the truth, says Moore.

Despite the difficulties, however, he refuses to accept that the difficulties should prevent employees, banks, investors or regulators from the vital task of trying to improve transparency, openness and honesty. "The banks are vital to the economy and we have not got the checks and balances right yet," says Moore.

He is philosophical about his own bruising experiences, believing he is the better for it, despite the financial and emotional damage he has suffered. "It has been an intensely painful experience but on the other hand we get transformed by trouble and so it has been a very graceful experience too.

"Mother Theresa once said, 'If I lose my reputation, at least that's one less thing to worry about.' It has been cathartic in that way and I'm glad I did it. I think I've been doing some good and there's more good still to be done."

This article was first published in Chartered Banker, the magazine of the Chartered Banker Institute.



FIDUCIARY
Responsibility of Banks

By M.A. Khan

The banker-customer relationship, essentially a contractual one, is traditionally expressed as a 'Debtor-Creditor' relationship. In reality, it is more than that as in certain cases such contracts may be overlapped by justice, tort to a lesser extent and other statutes including consumer protection legislation.

In the ordinary course of business, fiduciary relationship (Trustee/ Beneficiary or Agent/ Principal) arises when a bank undertakes to perform duties in a manner to protect the best interests of the customer, only with regards to matters within the scope of the fiduciary relationship, or is obliged to act so and the customer reposes its confidence in the bank to do so.

Unlike law of contract or Tort, rules governing Banker-Customer relationship are not a discrete area as they are built around a collection of legal principles which impact banking transactions and the banker-customer relationship. For banks, this relationship is built around the underlying principle to avoid conflict of interest. Their duty, amongst others, includes maintaining secrecy and confidentiality about the information and operations of customer's accounts.

Banking activity is a point where a diverse range of legal principles drawn from a range of sources intersect. In case of Pakistan, they are embodied in The Banking Companies Ordinance (BCO) 1962, amended in April 2011, according to which the contractual duty of banks or financial institutions is 'to exercise reasonable care and act in good faith while carrying out the bank's part of the contract' (BCO - section 33- A).

Fundamental responsibility of a fiduciary is duty of loyalty, which obligates the fiduciary to put the interests of the beneficiary first, ahead of the fiduciary's self-interest and to refrain from exploiting the relationship for the fiduciary's personal benefit.

The criterion is that a banker acting in accordance with accepted current practices shall not divulge any information relating to the affairs of its customers except in circumstances in which it is, in accordance with law and practice of banking, necessary or appropriate for a bank to divulge such information. Such a duty may, in limited circumstances, include duty such as questioning an otherwise valid mandate, e.g. a cheque validly drawn and signed by an authorized signatory.

This gives rise to more specific duties of banks, such as prohibition against self-dealing, conflicts of interest and the duty to disclose material information and facts only under certain specific situations as listed hereunder:

i. Disclosure made under express consent of the customer.

ii. Disclosure warranted under compulsion of law.

iii. If it is a duty to the public to disclose.

iv. Disclosure is in the interest of bank.

Perhaps the most famous description of the duty of loyalty is by Chief Judge Benjamin Cardozo in Meinhard v. Salmon, 164 N.E. 545, 546 (N.Y.1928).

Quote... *Many forms of conduct permissible in a work-a-day world for those acting at arm's length are forbidden to those bound by fiduciary ties. A trustee is held to something stricter than the morals of the market place. Not honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior....* Unquote.

"FUNDAMENTAL RESPONSIBILITY OF A FIDUCIARY IS DUTY OF LOYALTY, WHICH OBLIGATES THE FIDUCIARY TO PUT THE INTERESTS OF THE BENEFICIARY FIRST, AHEAD OF THE FIDUCIARY'S SELF-INTEREST AND TO REFRAIN FROM EXPLOITING THE RELATIONSHIP FOR THE FIDUCIARY'S PERSONAL BENEFIT."

Considering that fiduciary duty may arise either expressly or impliedly, banks, besides loyalty, also owe a duty to carry out their responsibilities in an informed and considered manner and to act in a manner becoming of a prudent management. If the fiduciary has special skills, or becomes a fiduciary on the basis of representations of special skills or expertise, the fiduciary is under a duty to use those skills.

In spite of the unrelenting emphasis on fiduciary role of the banks, it is not uncommon to read about instances where certain financial instructions ostensibly over-stepped their fiduciary line of duty. In the not too distant past, in USA Goldman Sachs were taken to task for their purported misdemeanors by lawmakers who were outraged at the idea that Goldman sold someone a security and then took a position on the other side of the trade.

CEO of Goldman Sachs later stated that acting as middleman for a trade; the so called market-making is distinct from managing assets on behalf of a client.Market-makers simply facilitate trades and as such, they are not fiduciaries. Many people on Wall Street agreed with this but lawmakers were not entirely convinced. One could argue that this is a debatable issue as there is a fine line between the roles played by banks as fiduciary and market players. However, this gray area on fiduciary duty will continue to be contested in lawsuits for years to come.

TOP 10 OPERATIONAL RISKS FOR 2013

THE RISK UNIVERSE, AN ONLINE MAGAZINE AND VOICE OF THE OPERATIONAL RISK COMMUNITY, COLLECTED ITS READERS' OPINIONS ON THE 10 BIGGEST OPERATIONAL RISKS CHALLENGING US IN 2013.

BY HANSRUEDI SCHÜTTER

When I was in charge of operational risk at Credit Suisse Group, I only had one thing in the back of my mind: I never wanted to find myself in the situation where I had to learn of an operational event hitting the bank from the press. And most certainly I did not want to have to report such an unexpected event to my board. No surprises, please!

The operational risk manager does not manage risks – that's the job of the line manager. In his monitoring and coordination function, it should also be the operational risk manager's implicit task to analyse the industry and the bank's activities and warn of dangers before they become apparent.

The industry's top 10 operational risks are as follows:

> "BY OUTSOURCING, OPERATIONAL RISKS ARE NOT REDUCED; THEY ARE ONLY SHIFTED TO ANOTHER BOX – AND ALL TOO OFTEN INCREASED BY DOING SO. IT SHOULD NOT TAKE LONG BEFORE REGULATORS TAKE A CLOSER LOOK AT OUTSOURCING RISK"

10 CORPORATE GOVERNANCE

High on the agenda now with regulators for good reasons, corporate governance took a back seat during the boom years of early 2000's. The Olympus scandal in Japan and last year's arrest of the Chairman of Vietnam's Asia Commercial Bank demonstrated that the issue is universal and not confined to Western investment banks. As we expect increased regulatory scrutiny, banks should look at various guidelines published. The British Standard in Governance (BS13500) might be a good start.

9 OUTSOURCING RISK

With budgets being cut left and right, outsourcing is booming. But make no mistake: it is still the bank that the customer holds responsible when things go wrong. By outsourcing, operational risks are not reduced; they are only shifted to another box – and all too often increased by doing so. It should not take long before regulators take a closer look at outsourcing risk, so do make sure your service provider is fully capable and has a tested business continuity plan. Reserve the right to inspect the provider's operation at any point in time.

8 REGULATORY CHANGE

In some areas, it is hard to keep track with all the new regulations issued by different bodies, especially if they are not exactly asking for the same thing. Basel III is definitely the big one which nearly every country with a developed financial system plans to implement while other guidelines and regulations are being published at an ever increasing pace. Banks should meet regularly with their regulators to ensure a constructive dialogue and avoid surprises.

7 IT SYSTEM TRANSFORMATION OF REPLACEMENT

Embarrassing and costly system failures in the UK and Australia exposed the limitations of outgrown IT systems. Upgrading or replacing is expensive but what makes it critical is the fact that you need to replace a live system. We have seen well tested change releases that caused havoc due to a minor oversight, mistake or incompatibility.

6 MONEY LAUNDERING

HSBC and Standard Chartered's fines implicating them in facilitating money laundering or Coutts' failure in effectively monitoring money laundering activities should be a wake-up call for all of us. It may be time to review regulations and procedures and organise refresher trainings for staff. Maybe anti-money laundering awareness should be introduced to the office staff as well.

5 INSIDER TRADING

A number of high profile insider trading cases catapulted the issue into the top ten. Staff having access to sensitive information should be made aware that even innocent comments can be the spark for a new fire.

4 REGULATORY NON-COMPLIANCE

Regulatory fines in major financial centres reached an all time high in 2012 – roughly three times the previous record number. Some disgruntled banker was reported as uttering that regulators finish off what the crisis did not do – bankrupt the industry. Even while legacy issues still lead to additional fines, banks need to rebuild their badly battered brand.

3 MISSELLING

From CDOs to inappropriate derivatives and payment protection insurance (PPI) sales – banks have been fined massive amounts for misselling and are required to make restitution to their clients. Amidst all this we receive news of call centre workers being pressurised and bullied to achieve increased sales numbers. Does the one who pays the fine talk to the one who pushes those sales?

2 FRAUD

White collar fraud is on the rise and its weight has gradually been shifting away from common employees to managers. Females are catching up too. The average fraud amount increases and so does the detection time lag. There are conflicting reports on whether internal or external fraud is more prevalent. Costly it is in any case and not necessarily beneficial to the bank's reputation. Major fraud cases made headlines in 2012 and regrettably, we will see more in 2013. From embezzlement to rogue trading and accounting fraud – the spectrum is diverse and wide.

Top managers operate in a position of trust and authority. Challenging their actions often means making a choice of opening your mouth or keeping your job. Whistle blowing channels are not available in all cases and not all of them provide sufficient protection for the righteous. Internal fraud is closely connected with our no.10, Corporate Governance.

Whether or not you have been affected by fraud recently, it is high time to get those fraud awareness programmes in place. He who has never seen a fraud will never recognise one.

> "FROM EMBEZZLEMENT TO ROGUE TRADING AND ACCOUNTING FRAUD – THE SPECTRUM IS DIVERSE AND WIDE."

1 AND THE WINNER IS CYBERCRIME AND IT SECURITY

Isn't it frightening to see how easily hackers penetrate even the presumably most secure servers? And isn't it shocking to see the negligence with which IT security is being managed in many places? When breaches reveal unencrypted sensitive data, we understand why it is estimated that every third American's identity has been compromised. Sony's Playstation hacks were a nice example of how badly firewalls were configured and customer data, including credit card numbers, were put at risk.

Distributed denial of service (DDoS) attacks have disrupted banking services at an ever increasing pace and frequency. Many of these attacks were blamed on foreign governments waging cyber war. In 2012 alone, the RiskBusiness Newsflash service logged as many as 17 banks (including 3 central banks), 10 stock exchanges, 3 payment providers, 2 airlines and 3 merchandisers that reported DDoS attacks and most likely these numbers are an understatement. Real-time attack mitigation solution provider Radware estimates that DDoS attacks cost victimised companies some $3.5 million a year.

Earlier this year, also the World Economic Forum recognised the threat to the global economy by cybercrime. And as if to prove it, the latest statistics show the top 100 arms makers' sales in 2011 fell for the first time since the mid-90s whereas a strong recent diversification trend into cyber-security was noted among big arms makers.

Operational risk management has become more challenging than ever. Where this is not yet the case, banks should segregate the operational risk management and the operational risk capital function. As the top ten risks above show, managing operational risks is a full time job. Let the quantitative analysts in the CFO's area deal with capital models.

> "THE LATEST STATISTICS SHOW THE TOP 100 ARMS MAKER'S SALES IN 2011 FELL FOR THE FIRST TIME SINCE THE MID-90s, WHEREAS A STRONG RECENT DIVERSIFICATION TREND INTO CYBER-SECURITY WAS NOTED AMONG BIG ARMS MAKERS"

By: Ali Eeman

Ratings Models to *Evaluate* FINANCIAL INSTITUTIONS

Rating models are tools which asses an institution's risks and provide a score depicting its overall credit risk. They are a combination of factors which influence an institution's credit worthiness. Each of these factors can have multiple sub-factors. Eventually, scores of these major factors culminate into the institution's credit rating.

"Rating models are flawed. The financial crisis has proved this. You cannot expect these new generation gimmicks to understand intricacies and throw correct opinions." Not the sort of response you would be expecting out of your supervisor after putting in days of hard work to develop a rating model. But unfortunately, these are the exact words a friend of mine confronted. I won't be surprised if there were more people thinking along the same lines. After all, rating models did fail to capture impending crisis in 2008. So this begs a very important question, if models are that useless, then why do we use them? My answer is: "models are not useless; they are GIGO (garbage in, garbage out). You fail to incorporate the correct factors, the results will be futile." But I do agree to some extent with my friend's supervisor, not all intricacies can be covered in a single model and you do need certain degree of subjectivity. Maybe, I am part of the generation which has not yet graduated completely to smart phones, but cannot quite remember how life before Google was either.

To substantiate this argument, let's try to see how rating models work, and then identify factors which should be included in a rating model to evaluate financial institutions – specifically commercial banks.

RATING MODELS – A SNAPSHOT

The relative importance of each factor and sub-factor of a rating model is accounted for by providing different weights to each. It is important to note that models are not all-encompassing. Entities face both, qualitative and quantitative risks. Since, models are based on objective criteria; they struggle to capture the subjective elements, such as ownership, governance, management and risk management, which are otherwise critical for sustainability of institutions.

FINANCIAL INSTITUTIONS (FIS)

Financial Institutions are backbone of an economy. Acting as intermediaries, FIs mobilize money from general public and institutions and make investments and/or lend to those in need of funds. In this way, they provide impetus to savings and investments, and in turn, propel growth and development. The model is simple. As long as borrowers honor their commitments, and FIs ensure proper matching of assets and liabilities, risk remains low. However, in reality, things are far from ideal. FIs face variety of risks in their day-to-day operations.

The key ingredient for developing a successful rating model is understanding the risks faced by an underlying industry, in this case, commercial banks. For ease of discussion, I have divided these risks into four categories, (i) generic, (ii) performance, (iii) asset risk, and (iv) capital & funding

GENERIC RISKS

a. Although assessment of economic environment is an important component of any rating model, it has even more significance when evaluating FIs, such as banks. The reason is simple. Banks' customers – depositors and borrowers – belong to all type of sectors. Any sector that is impacted due to economy will have a trickledown effect on bank's performance. In order to quantify the economic condition, factors such as GDP per capita growth, interest rate scenario, exchange rate and fiscal position are considered in the rating model.

b. Credit analysis of banks cannot be completed without gauging the bank's relative standing in the industry. Banks operate in a dynamic and competitive environment, where bargaining power of borrowers and depositors is high as they have the flexibility to move from one bank to other. Customers will be more inclined to transact with banks with a larger branch outreach, greater product range, better brand recognition and superior customer service.

Figure 1 Performance

	FACTORS	MEASURE	RESULTS
1.	Profitability	• Return on equity (RoE) • Return on assets (RoA) • Spreads (interest income less interest cost)	Higher the better
2.	Stability of earnings (diversification)	HHI index[i] of weightage of all revenue streams	Lower the better
3.	Quality of earnings	Adjusted profitability (excl. one-time gains and losses)	Higher the better
4.	Cost efficiency	• Operating cost to net revenue • Personnel expenses to net revenue	Lower the better
5.	Asset efficiency	• Net non-earning assets/ assets net of non-interest liabilities	Lower the better

Figure 2 a) Credit Risk

	FACTORS	MEASURE	RESULTS
1.	Balance sheet structure	Total lending / total assets	Lower the better
2.	Quality of loan book	• Loans to corporate companies/ total advances • Average obligor rating of portfolio	Higher the better
3.	Duration	Working capital loans / total loans	Higher the better
4.	Concentration	• Top 20 borrowers/total loan book • Top 5 sectoral exposures/ total loan book	Lower the better
5.	Non-performing loans (NPLs)	NPLs (net of provisioning)/ advances net of provisions	Lower the better

PERFORMANCE

No matter how qualified the management is, or how fancy a bank's ambience, if its financial results are not strong enough, the bank is likely to fail. Hence, the foremost quantitative element considered in rating model is a bank's performance. It constitutes profitability, stability of earnings and efficiency.
(See Figure 1)

ASSET RISK

Banks have sizeable balance sheets. Their assets are dominated by loans made to borrowers followed by investments. Unlike other businesses, banks run a significant risk on their asset base. Loans may not be returned (credit risk), while investments may fall in value (market risk), or duration of assets may exceed that of liabilities (liquidity risk). Hence, asset risk is usually given considerable weightage in rating models for banks. One of the most important mantras for banks is to avoid concentration, or the "C" word, as I like to call it. However, it is important to diversify in superior avenues.

a) **Credit Risk:**

(See Figure 2a)

b) **Market & Liquidity Risks:**

Remember, CASH IS KING! Banks fail because they do not have requisite liquidity. They make ill-liquid investments, put all their eggs in one basket (which breaks) or end up committing funds for longer duration than their liabilities. *(See Figure 2b)*

CAPITAL & FUNDING

a) **Capital:**

A bank's capital provides it with risk absorption capacity to withstand losses. When assessing bank's capitalization, it is important to gauge the current and expected quantum and quality of the bank's capital. The rule is straightforward; higher the quantum, larger the capacity to bear downturns. *(See Figure 3a)*

b) **Funding:**

The principle source of funding for banks is deposit mobilization. Banks use deposits to finance their business and generate revenues and pay interest to depositors in return. In their absence, banks will struggle to build an asset base. Hence, it is critical for banks to have a stable deposit base. *(See Figure 3b)*

Figure 2 b) Market & Liquidity Risks

	FACTORS	MEASURE	RESULTS
1.	Volatility	Equity portfolio/tier-1 capital	Lower the better
2.	Quality of investment portfolio	• Government securities/ total investments • Treasury bills/government securities	Higher the better
3.	Concentration	Top 10 equity scrips / tier-1 capital	Lower the better
4.	Liquidity	Liquid assets / deposits and borrowing	Higher the better
5.	Liquidity mismatch	Weighted average maturity (WAM) of assets/WAM of liabilities	Higher the better

Figure 3 a) Capital

	FACTORS	MEASURE	RESULTS
1.	Leverage	Equity / total assets	Higher the better
2.	Capital adequacy (as calculated under BASEL-II framework)	• Total CAR • Tier-1 CAR	Higher the better
3.	Capital depletion rate	Net NPLs / equity	Lower the better

Figure 3 b) Funding

	FACTORS	MEASURE	RESULTS
1.	Stability	• Individual deposits / total deposits • Current and savings / total deposit • Sponsor deposit / total deposit	Higher the better
2.	Concentration	• Top 20 depositors / total deposit • HHI of sectoral exposures	Lower the better
3.	Market share	Bank's total deposit / country's total deposit	Higher the better
4.	Brand recognition	Average cost of funds	Lower the better

These for me are the more critical factors which capture a bank's major risks. It is important to consider all these in conjunction with each other and not on a stand-alone basis. The respective importance of each factor varies according to situation. Hence, weightages should not be static. We need to understand the overall economy and then decide on which factors should be given more consideration. This is where users of the model have to act smartly.

Remember, if the model has been designed carefully and it incorporates the requisite factors, it will provide a reasonable estimate of credit worthiness. So, put in the hard yards at the beginning and remain open to challenge your own assumptions. Back-testing of models to validate its results is an important exercise.

We operate in a dynamic environment and our models should not become obsolete. This was one of the major mistakes made by institutions assessing credit quality, during the financial crisis. Their rating models were developed years ago. The economic environment worsened and it was not reflected in the models.

Models should be used only as a guiding tool. We should be prepared to override the results, if analytically justified. But any such deviations should be properly documented. Models are not entity-specific. They deal with generic factors that impact the whole industry. Individual institutions may have certain idiosyncratic risks which are not captured adequately by the model. In such cases, model-driven ratings may be superseded. At times, certain trends may emerge out of the subjective input which may mandate revision of the rating model. This will ensure that the same analytical process is followed across all rated entities.

The world is evolving fast, so don't think smart phones are here to undermine your wisdom. Use them to your advantage. Remember, it is better to use Google maps than to rely on memory. Maybe it is time for me as well to jump on the smart phones bandwagon.

Some of the common branch banking problems and solutions are given below:

Q.1 **Mr. Shahryar Ali and Mr. Vaqar Ahmed have a joint account at your branch. Instructions to operate the account are "by either or survivor". Mr. Shahryar Ali requests you to add Mr. Iqbal Khan as his agent to operate the account and has executed a power of attorney in favor of Mr. Iqbal Khan. How would you proceed with this request?**

Ans. One signatory of a joint account cannot delegate his powers to operate the account to any third person. This requires an authority signed by all the joint account holders. Hence, Mr. Shahryar Ali's request cannot be acceded to unless it is also signed by Mr. Vaqar Ahmed.

Q.2 **An attachment order issued by an Income Tax Officer against Mr. Nadeem Usman for the sum of Rs. 50,000/- is received at your branch. There is no such account at the branch. However, an account in the joint names of Nadeem Usman and Waseem Usman does exist with a credit balance Rs. 145,379.28. The account is required to be operated jointly by both the joint accountholders. How would you act upon the attachment order?**

Ans. As provided under Section 226 of the Income Tax Act, share of the two joint account holders, as it pertains to the balance of the account, is presumed to be equal unless it is explicitly stated otherwise. Hence, if the account is bound to pay half of the amount to Nadeem Usman, the bank can attach up to half of the amount or the amount of the order, whichever is less, in compliance of the order.

In the given situation, the bank shall be committed to pay Rs.50,000/- to the ITO concerned to the debit of the account. The bank shall stand fully discharged from its liability towards the account holders to the extent of Rs.50, 000/- thus paid.

Q.3 **An order nisi is served on the bank attaching a sum of Rs. 71,000 only in the account of Messrs. ABC Trading Co. maintained at one of its branches. The account then has a credit balance of Rs. 110,000. Simultaneously, a cheque for Rs. 35,000 is presented for payment. How can the situation be handled?**

What action will be taken in the instance?
(i)The cheque presented for payment was for Rs. 45,000 and
(ii)The order was to attach the entire balance available in the account?

Ans. If the garnishee order specifies the amount to be attached, any amount in excess of such specified amount remains available to the accountholder to use at his discretion (Plunker v. Barclays Bank Ltd. (1936)2 K.B. 107).

In the given situation, Rs. 71,000 shall be transferred to Sundry Deposit Account (certain banks transfer the amount to Suspense Account) and the accountholder should be informed accordingly. Since the balance remaining in the account will be sufficient to meet the cheque for Rs. 35,000, it will be paid if otherwise in order.

(i) In this situation, the cheque of Rs. 45,000 will not be paid as the balance in the account aftersatisfying the garnishee order will be insufficient, provided that the customer does not have any overdraft arrangement.

(ii)If the garnishee order is for the entire balance, the entire sum of Rs. 110,000 should be attached and the account stopped for all transactions. A new account may be opened for future transactions.

Q.4 The manager of a branch of an NCB receives a telephone call from a well-known conglomerate firm's retail outlet situated in the vicinity of that branch, saying that one of its (bank's) customers, namely, Sadruddin Jahagiri (a fictitious name) has done shopping for an aggregate amount of Rs. 16,700/- and wants to make payment by cheque and requesting the branch manager to confirm that the cheque would be honored. Sadruddin Jahangir is a valued customer of the branch, considered good for the amount and is personally known to the manager. How should the manager deal with this query?

Ans. The bank manager should call Mr. Jahangiri and after his identity is established beyond doubt and to the utmost satisfaction of the manager and Mr. Jahangiri's consent to pay the cheque is obtained in unequivocal terms, and the balance in the account has been verified to be sufficient to meet the cheque, the confirmation sought by the shopkeeper may be extended subject to the conditions explained to him in no uncertain terms, that the cheque is otherwise in order if the position does not alter by any reason at the time of the presentment of the cheque, and payment of the cheque is not withheld under any valid authority.

Q.5 Usually "either or survivor" operational instructions are obtained in case of accounts of 'two persons only' and in English language/ literature, the word is usually denoted by each of two, one of the two and one or the other.

During the course of a recent audit, it was observed that branch had obtained E/O/S operational instructions in case of account being run by more than two persons as well. In such a situation, can the branch's action be considered lawful/valid?

Ans. Yes, the branch's action can be considered lawful/valid. When two or more persons, other than as partners/ trustees, open an account in their personal names, the account is said to be a joint account. This reconciles with the principle of Devolution of Joint Rights, which is covered under section 45 of the Contract Act, 1872. This section reads as under:

"When a person has made a promise to two or more persons jointly, then unless a contrary intention appears from the contract, the right to claim performance rests, as between him and them, with them during their lives and after the death of any of them. With the representative of each deceased person jointly with the survivor of survivors and after the death of the last survivor with the representatives of all jointly."

The provision of this section is crystal clear which depicts in unambiguous terms that the joint rights and obligations refer to "two or more" joint stake holders. Hence, a joint account holder is not restricted to two joint accountholders only. The concept of several liability- which suggests that the banker can bring as many actions as there are debtors- also supports this connection.

Q.6 Can an open cheque issued in favour of a company, without the crossing stamp be cashed at the counters of the bank?

Ans. Before dealing with the question, it needs to be clarified that 'open cheque' and 'cheque without crossing' mean the same thing. Often but most erroneously, the term 'open cheque' is regarded as synonymous with 'bearer cheque'. The questioner also seems to be suffering from this delusion.

An open cheque may be 'bearer' or 'order'. Both types of cheques can be paid in cash on the counter, if otherwise in order. However, a bearer cheque can be paid to anybody who presents it at the counter, whereas the order cheque can be paid only to the payee named thereon, or to the endorsee. The underlying principle is that the negotiation of bearer instrument is completed by delivery while that if the order instrument is completed by endorsement and delivery. (Sec 46 of the Negotiable Instruments Act, 1881)

Identically, a crossed cheque may also be payable to the bearer, or to the order of a certain person. The principle regarding payment is the same as in the case of open cheque with the difference that a crossed cheque can be paid only to a bank.

It can be safely contended that there is no legal bar on paying of a cheque drawn in favor of a limited company in cash on the counter of the drawer bank. However, the difference is between "can" and "shall", which means that, "Yes, it can be paid; but no, it shall not be paid".

A company invariably has a bank account and according to the established practice, it makes all payments through cheques and all cheques received by it are deposited into its bank account for collection. Hence, presentment of a cheque on the bank's counter for cash payment will not be in line with the established practice and will, therefore not meet the requirements of payment in due course, (S.10 of the N.I.A). This means that by making such payments, the paying bank shall be deprived of legal protection. The banks, therefore, abstain from making such payments.

MICROFINANCE IN PAKISTAN

Opportunities & Challenges

By: Ali Basharat

Microfinance in Pakistan has come a long way since being pioneered by Orangi Pilot Project (OPP) and Aga Khan Rural Support Program (AKRSP) nearly three decades ago. Currently, the sector stands at 2.4 million active borrowers, total outstanding loan portfolio at PKR 38 billion and savings at PKR 25 billion. In a country, where only 10 percent of the adult population has bank accounts and only 2 percent have obtained loans from financial institutions, the industry has a great opportunity to contribute towards the vision of financial inclusion.

The microfinance industry is made up of more than 50 organizations, large and small. The organizations include microfinance banks (MFBs), specialized NGO- Microfinance Institutes (MFIs) and organizations running microfinance operations as part of multi-dimensional services. The potential market for the microfinance in the country is estimated to be over 27 million out of which only 9 percent has yet been tapped.

The enabling environment created by the policymakers and regulators, especially State Bank of Pakistan, led to Pakistan's overall microfinance business environment being ranked at number three globally (by the Economic Intelligence Unit of The Economist). The impressive growth in branchless banking has led Consultative Group to Assist the Poor (CGAP) of The World Bank to call Pakistan 'a laboratory of innovation'.

This is an impressive performance for a sector which only became a focus of policy around 2001, but to become a vibrant part of the financial landscape there is much that remains to be done. The industry faces a number of challenges that need to be addressed while at the same time there are many opportunities which need to be fully utilized to achieve the aim of inclusive finance for all.

Obviously, external challenges like adverse security situation in KPK & Balochistan, floods for consecutive years and energy woes have resulted in dampening the growth of the sector. However, the sector is working to address these risks through exploring the possibility of setting up a risk mitigation fund for the sector that can help institutions secure themselves against losses from natural disasters or terrorism related incidents.

There are also several internal challenges. Funding to fuel the required expansion remains a key concern. MFPs are moving from grant based and subsidized loans for on-lending towards commercial loans. Guarantee funds by SBP and the Pakistan Poverty Alleviation Fund (PPAF) have played a crucial role in promoting commercial lending to the industry. However, heavy public sector borrowing by the government from commercial banks in recent years has made it harder for microfinance providers (MFPs) to access these sources. MFPs have thus tried to diversify their funding sources by exploring money markets, debt capital markets and international sources. Despite low investment in the overall economy, the microfinance industry in Pakistan continues to attract investor attention, both local and international. Recent acquisitions of Khushhali Bank Limited (KBL), Apna MFB, U-MFB and launch of green field institutes like Advans MFB and Waseela MFB are reflections of this trend. Investors include high net worth individuals, mobile network operators, commercial banks and international development institutions.

Another challenge lies in the relatively high operating costs due to rising inflation and reliance on conventional delivery channels. It is hoped that widespread adoption of branchless banking will lead to development of alternate delivery channels resulting in cost reduction and increased outreach. With over 120 million mobile connections and only 2.4 million active microfinance borrowers, this area offers an opportunity for the industry to expand its outreach and at the same time reduce costs. At present, over four branchless banking models have been deployed and another six have obtained licenses and are at the pilot stages. Also, the G2P payments worth USD 9.3 billion can now be channelized through the branchless banking network. In addition, the development of a nation-wide credit information bureau for the microfinance sector currently underway will also lead not only to reduction in credit risk, induce credit discipline, avoid over indebtedness, but also make it possible to reward borrowers with good credit history by up-scaling their loan sizes. SBP's decision to allow microenterprise lending and extending SME Guarantee Facility to MFBs has opened up whole new market strata for these institutes. MFBs can now significantly upscale their loans to cover micro enterprises and also the lower end of small and medium enterprises.

“STUDIES SHOW THAT THERE IS GREAT NEED AND DEMAND FOR MICRO-INSURANCE PRODUCTS PARTICULARLY IN THE MOST VULNERABLE SEGMENTS OF THE POPULATION.”

At the policy level, a key challenge is the absence of regulatory and legal cover for the non-bank MFPs (such as NGO-MFIs and RSPs). The microfinance industry has grown to a stage where it is important that the regulatory umbrella extends beyond MFBs. SECP has formed a steering committee to draft regulations for the sector. It is hoped that this will lead to the improvement in the standards of corporate governance, strengthen institutes, provide legal recourse for the non-bank MFPs and institutionalize client protection. Increase investor confidence, provide political cover, regulatory guidance and increase in financial transparency for the industry. Moreover, with the progress on regulations for micro-insurance by SECP it is hoped that insurance segment of microfinance will also move beyond the infancy stage. Studies have shown that there is great need and demand for micro-insurance products particularly in the most vulnerable segments of the population. It is anticipated that regulations will be followed by product diversification covering health, livestock and agriculture insurance and also create space for establishment of specialized micro insurance organizations.

It is acknowledged that better access to finance not only increases overall economic growth, but also helps fight poverty and reduce income gaps between rich and poor people[1].The microfinance revolution has provided an opportunity to provide access to finance to the previously marginalized. Like any development intervention, it alone is not the silver bullet for poverty reduction or social development, but remains a key pillar in Pakistan's development strategy. Overcoming the challenges and recognizing the opportunities is important if the sector is to play the key role in the country's development.

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[1] *AsliDemirgüç-Kunt, TheWorld Bank.*

PAKISTAN capital MARKET

SCOPE, CHALLENGES AND MUCH NEEDED REFORMS

By Mir Mohammad Alikhan

The Karachi Stock Exchange has outperformed majority of the stock markets around the world in the year 2012, up almost 50 percent from a low of 12,213 points on February 9th 2012 to a high of 17,408 points on February 6th 2013. Total capitalization of the market, which includes some 650 companies, exceeded USD $ 43 Billion Dollars. Stellar corporate earnings and one of the lowest overall market multiples in the region, the Pakistani markets, in the writer's view, are still the cheapest markets to invest in when it comes to developing countries within the region.

Over $15 Billion worth of wealth was created through the stock markets of Pakistan within the last year alone. Looking at this phenomenal number, a simple question comes to my mind- how has it benefited the younger generation of our country? Another question that goes hand in hand with capital markets and its growth is, how many young people were able to get financing for their ideas through this platform? Stock markets are not only a vehicle to raise equity by listing shares after the company has matured or to raise additional funding for expansion or corporate takeovers, it should primarily be the place where younger, less capitalized companies can also come and raise funds for their ideas. The most important role of any stock market is to fund those ideas which commercial banks will not entertain because usually a startup company may not have assets to pledge to a bank and get the financing. As an investment banker, your true talent lies in the ability to gauge the pros and cons between a company with almost no assets and a company with millions of dollars in tangible assets. After all, almost all the innovations of the past 100 years have been by companies which had great ideas and little or no initial funding.

KSE Index from Feb 2012- Feb 2013	
Low	12,213
High	17,408
% Change	42.54%

Just look at the past 35 years of the world corporations coming up with the best of innovations and

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you will get a clearer picture. Imagine if Netscape, the first internet browser company in the world never received any financing because it had no tangible assets, which it did not. Would you be surfing the web today with the much better and improved versions of the web browsers? If Bill Gates (Microsoft), Jeff Bezos (Amazon.com), Mark Zuckerberg (Facebook) and hundreds of founders of other companies in the world had to go to seek financing from a commercial bank, having no assets except a brilliant idea, instead of the stock markets, the world would have lost out on the most recent technological wonders of the past 50 years. New and young companies are the backbone of an economy. They not only bring the best of ideas to the market, keeping up with the need of the ever changing times, they also generate millions of new jobs, create a much larger tax base and in many cases, enhance a country's exports and bring in financial stability, all of which Pakistan badly needs. NASDAQ (National Association of Securities Dealers Automated Quotation) Stock market within its past 42 years of history has become the primary market for raising funds for new ideas. Along the way, it has created a Market Capitalization of USD $4.5 Trillion dollars just by listing little over 2784 companies. The more mature and well established companies go to NYSE (New York Stock Exchange) for listing. NASDAQ is the backbone of corporate America, not to mention the products these companies export to the rest of the world and create a larger corporate tax base for their nation through the profits they earn.

We do not have to go that far away from Pakistan to look at the benefits of less stringent listing requirements by a stock exchange and its positive effects on the New Economy. The Bombay Stock Exchange was founded in 1875 and as of 2012, it had 5163 listed companies with a total market capitalization of USD $ 1.2 Trillion Dollars. It took BSE 137 years to create $ 1.2 Trillion in market capitaliza

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Over $15 Billion worth of wealth was created through the stock markets of Pakistan within the last year alone. Looking at this phenomenal number, a simple question comes to my mind- how has it benefited the younger generation of our country? Another question that goes hand in hand with capital markets and its growth is, how many young people were able to get financing for their ideas through this platform? Stock markets are not only a vehicle to raise equity by listing shares after the company has matured or to raise additional funding for expansion or corporate takeovers, it should primarily be the place where younger, less capitalized companies can also come and raise funds for their ideas. The most important role of any stock market is to fund those ideas which commercial banks will not entertain because usually a startup company may not have assets to pledge to a bank and get the financing. As an investment banker, your true talent lies in the ability to gauge the pros and cons between a company with almost no assets and a company with millions of dollars in tangible assets. After all, almost all the innovations of the past 100 years have been by companies which had great ideas and little or no initial funding.

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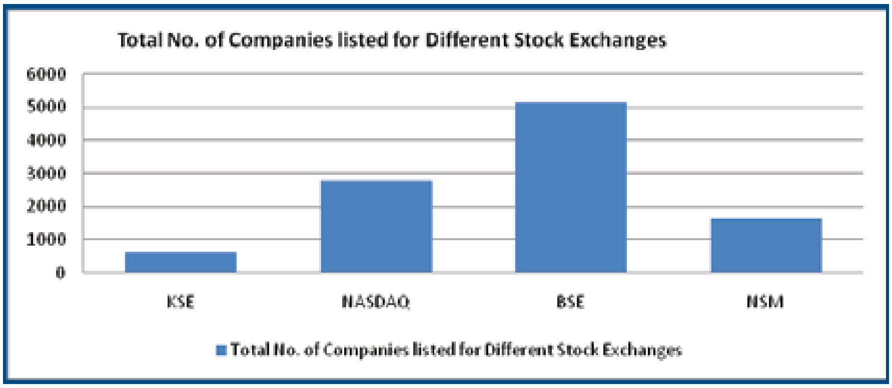
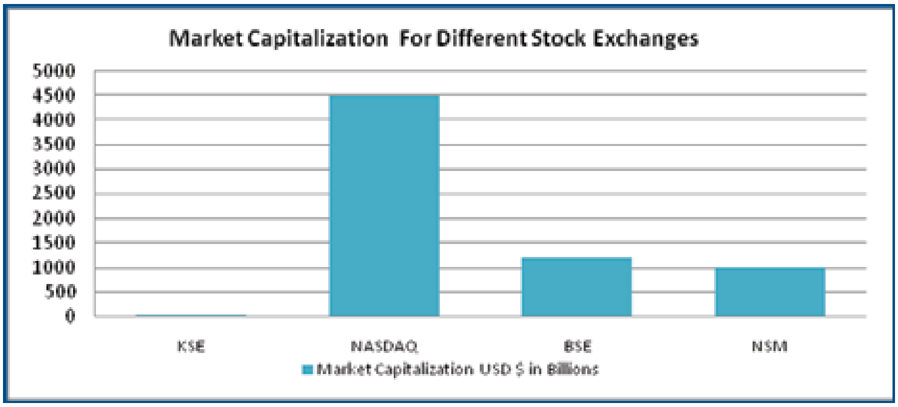
> “ WHAT TOOK BOMBAY STOCK EXCHANGE 137 YEARS TO CREATE A MARKET CAP WITH 5163 COMPANIES, TOOK NATIONAL STOCK EXCHANGE JUST 21 YEARS WITH A MERE 1652 COMPANIES. ”

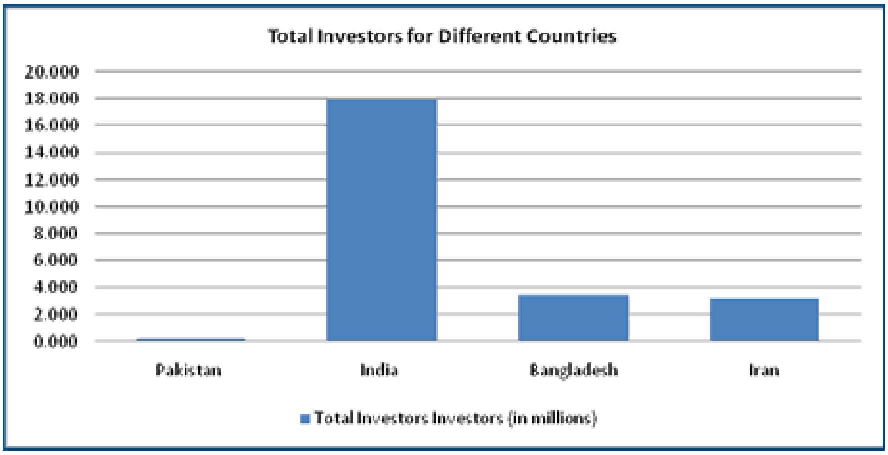


tion. On the other hand, The National Stock Exchange, also situated in Bombay, founded in 1992 with the aim to become a source of funding for young and upcoming companies, has attracted some 1652 new companies since its inception. The astonishing difference is that it also has a market capitalization of about USD $ 1 Trillion dollars. What took BSE 137 years to create a market cap with 5163 companies, took NSM just 21 years with a mere 1652 companies.

In this day and age of technology driven economies, service industry companies have a much higher chance of faster growth than manufacturing companies. Manufacturers usually have tangible assets in the form of land, equipment, machinery, etc. but service company's main assets are its ideas and its human capital. The software industry of India was entirely financed through venture capital first and followed by Initial Public Offerings. India in the past 25 years has created the most number of millionaires and just lags behind China in creating new billionaires. Was India able to do this because it has better talent and better ideas than Pakistan? Absolutely NOT. It happened because the financial regulators of the stock exchanges paved the way for companies to raise capital with ease. They allowed newly established companies to come to the market and be judged by the investor response rather than the regulators themselves acting as judges of the viability of an idea. It is not the job of the regulator to determine if the idea is good or bad. In actuality, it is the talent of an investment banker to pick a winner out of all the companies which approach him for raising funds. In my 20 years of experience on Wall Street, all the way from a stockbroker to the CEO of an investment bank, I have been involved with over 150 initial public offerings. Out of which in 60 IPO's and above, I acted in the capacity of an underwriter, co-underwriter or as a venture capitalist. I learnt from the best on Wall Street. If I had to point out one thing which stands out in my learnings, it would be the fact that a great investment banker is not the one who can buy a winning stock after it has gone public; that would be the job of an analyst along with a stockbroker. A great investment banker is one who can identify the potential of an idea in its inception stage, prior to it going public. Believing in that company to the point that he invests money right in the beginning stages and usually gets out right after it goes public, making huge sums of money for his clients and repeating the same process throughout his career. Along the way as an investment banker, there will be deals that dont materialize or go south. What makes a great investment banker, is the ability to pick more companies that survive.



Better opportunities in the equity markets will also broaden the investor base in Pakistan. Currently, we have one of the lowest stock market investor to population ratios in the region. We have an approximately 250,000 investor base out of a population of almost 200 million people. Total number of CDC account holders is 52,800, number of individual accounts with brokerage houses is 195,000 yet the number of active participants in the market is 110,000. Another astonishing fact is that



"ALONG THE WAY AS AN INVESTOR BANKER THERE WILL BE DEALS THAT DON'T MATERIALIZE OR GO SOUTH. WHAT MAKES A GREAT INVESTOR BANKER, IS THE ABILITY TO PICK MORE COMPANIES THAT SURVIVE"

85% of all registered UIN at Karachi Stock Exchange are from Karachi city. Newer listings from around the country will also broaden the investor base from other cities of Pakistan as well.

In comparison, India has approximately 18 million investors. Bangladesh 3.5 million and even Iran with all the international sanctions and uncertainty, has about 3.2 million investors. When younger and new economy companies are given a chance to list their shares onto the equity exchanges, this will result in the younger generation of Pakistan to enter the capital markets as well.

What we need in Pakistan capital markets are reforms. We need to give way to the new companies to raise funds through stock exchanges because the commercial banking environment of our country does not favor new ideas to gain funding. Commercial banks and asset leasing companies are busy funding the ideas of people and entities who are already rich and have the initial capital to seek further financing. Gone are the days when money made money. We are living in the age where ideas make money. The most important asset is an idea that you could capitalize on. Stock exchange listing requirements should be relaxed. The regulator should be less concern about failure or success of the company, as an over cautious approach may stifle growth. They should leave this worry to the professionals - the investment bankers. Either the stock exchange should be divided in three categories for listing, which could be small cap, mid cap and large cap, with different listing requirements for each category or it should create a new Stock exchange altogether for smaller companies to be listed upon. A new stock exchange, especially an electronic, non physical exchange like NASDAQ will cost less and will take the country towards a newer technologically advanced trading and listing platform with much greater transparency and efficiency.

There should also be a system of committed market makers in every security listed at the exchange. This is only possible with an electronic exchange. There should be a minimum of 4 market makers in every security applying for a listing. This will allow the investment bankers to thoroughly evaluate the company they will commit to as its investment bankers and market makers. These market makers will not only provide liquidity at all times in a listed security but also give the investors a higher level of confidence. Some of the good companies listed on KSE are absolutely illiquid. A few thousand shares in buying will increase market capitalization of the company by millions of rupees and vice versa. From an international fund manager or investor's perspective, this is an absolute deterrence for participating in Pakistani equity markets. As the saying goes amongst traders on Wall Street, LIQUIDITY IS KING. It is absolutely against investment logic to enter even the greatest equity markets in the world if there is no way of efficient and swift exit. Increased liquidity in the markets will increase international investor participation, thus resulting in a higher revenue base for the stock exchanges as well. Higher market participation will also benefit the Government of Pakistan as well since many of the GOP owned companies (OGDC, PSO, PPL, PTC, etc) are also listed on the same exchanges.

It is about time that the financial leaders of this country sit down with a higher goal of benefitting the nation through capital markets reforms. Think beyond immediate gains and prepare the nation for a long term sustainable growth in the markets. Pakistan CAN NOT afford to have another post 2008 debacle where the equity markets were closed down for over 90 days. Pakistan does not need what is referred to locally in the markets as "PUNTERS". Pakistan needs long term committed investors from within and outside Pakistan. This is only possible if the market regulators make changes and adopt a more encouraging stance.

Save the banking courts

By Nida Naqvi

Pakistan's banking sector has several holes, and stopgap measures for certain issues will not fix the pipe. The approach must be holistic. Unfortunately, there is one single area of the sector that, for whatever reason, is largely ignored and vastly underestimated in terms of how it affects the entire system – the banking courts.

Reforms, however well-intentioned they may be, are worth as much as the paper on which they are written – unless they are comprehensive. If a pipe is broken in several different places, then plugging one or two holes will not fix the leak; the water will push even more furiously from the remaining holes. Unless the problems gnawing away at the banking courts are addressed, there is no hope for any other proposed banking reforms – however practical they may be – to actually work.

Banking courts support the entire borrowing-lending system. A well-regulated court provides the necessary forum to manage disputes fairly, effectively, and efficiently. Banks need satisfactory alternative to the courts in order to, among other things, recover on non-performing loans – a recourse without which they simply will cut back on their lending to the private sector. The consumer base needs adequate court support because otherwise, economic activity is suspended

"BANKS NEED SATISFACTORY ALTERNATIVE TO THE COURTS IN ORDER TO, AMONG OTHER THINGS, RECOVER ON NON-PERFORMING LOANS."

"The entire system needs to be rehabilitated. The system has significant cracks but these can be addressed if political will is present. The need to address these cracks is even more important in light of the new, exciting developments in financial products in Pakistan over the past decade."

and the undocumented shadow economy (which inhibits ultimate national growth) enlarges.

Thus, given the current status of Pakistan's banking courts, it comes as no surprise that the NPL rate hovers at 16%, the net flow of credit to the private sector is increasingly low (Rs. 18.3 billion), the interest rate is incredibly high, and the undocumented "shadow" economy by some accounts comprises 50% of Pakistan's total GDP. ("Policy rate cut by 150bps to 10.5 percent: private sector credit woes, improved inflation outlook," Business Recorder, August 11, 2012; "The Secret Strength of Pakistan's Economy, Naween A. Mangi, Bloomberg Businessweek, April 5, 2012).

To get a snapshot of the status of the banking courts – consider that in Lahore, as of closing of year 2012, over 70 percent of cases had not been heard. More significantly, four out of five judges' seats were vacant. The abysmal situation caused the Banking Courts Lawyers Forum (BCLF) to rally in protest, lead by BCLF President Chaudhry Tounas and District Bar Association President Chaudhry Zulfiqar Ali. (The Express Tribune, Banking Courts: Lawyers Protest Lack of Judges, Nov 16 2012). According to Shahzad Dada, CEO of Barclay's Pakistan, "the banking courts are severely understaffed…about half of all positions for judges in the banking courts are still vacant…due to such constraints, there is a lot of backlog in banking court cases…the Pakistan Banking Association (PBA) is lobbying the Government at the highest level to ensure that these vacancies are filled."

The lack of judges in the courts is only one issue – albeit a serious one. The entire system needs to be rehabilitated. According to the IMF, "the consensus is that enforcement of financial contracts cannot take place unless the legal and judicial process is strengthened…the banking courts system need to be revamped and reoriented to facilitate loan recovery more expeditiously" (Pakistan Poverty Reduction Strategy Paper, IMF). The system has significant cracks but these can be addressed if political will is present. The need to address these cracks is even more important in light of the new, exciting developments in financial products in Pakistan over the past decade.

In their "Analysis of Law Relating to Establishment of Banking Courts in Pakistan," Muhammad Naveed Chohan, and Muhammad Waheed Chohan, both Advocates, outline a helpful and rational set of possible solutions. Shortage of judges is one fundamental issue, additionally, the target areas that need to be addressed are: forum, capacity, and the classification and appointment of judges. The authors argue for one single judicial forum with all the powers to adjudicate banker-consumer disputes, instead of the current system where certain matters are deferred to the High Courts. Capacity needs to be increased by establishing more courts; particularly in areas where no court exists (Islamabad and Sialkot are two examples). Judges should be classified according to their experience; and they should be appointed by the judiciary instead of by the federal government ("Analysis of Law Relating to Establishment of Banking Courts in Pakistan," Muhammad Naveed Chohan, and Muhammad Waheed Chohan," plijlawsite.com/2011/art5.htm).

At the end of the day, the substance of the reform can be and should be subject to debate but what remains priority is actually establishing momentum towards change. Pakistan can look to other developing countries who have reformed their systems in order to follow by example. While there are certainly problems associated with even the most developed banking court systems in advanced countries, the point is that they have a forum in existence which can somewhat support the inflow of litigation. Pakistan's situation is much worse. In the same way that crime will continue to flourish unless an effective criminal justice is in place, so too will the economy continue to suffer unless there is a proper forum for the resolution of financial disputes.

To tweet or not to tweet: that is the question

"This bank permits staff to make personal domestic calls 'within reason and at the discretion of the manager' but it has no reference to social networking at all."

The advent of social networking sites has created its own particular ethical dilemma against the backdrop of the professional environment, as BOB SOUSTER reports.

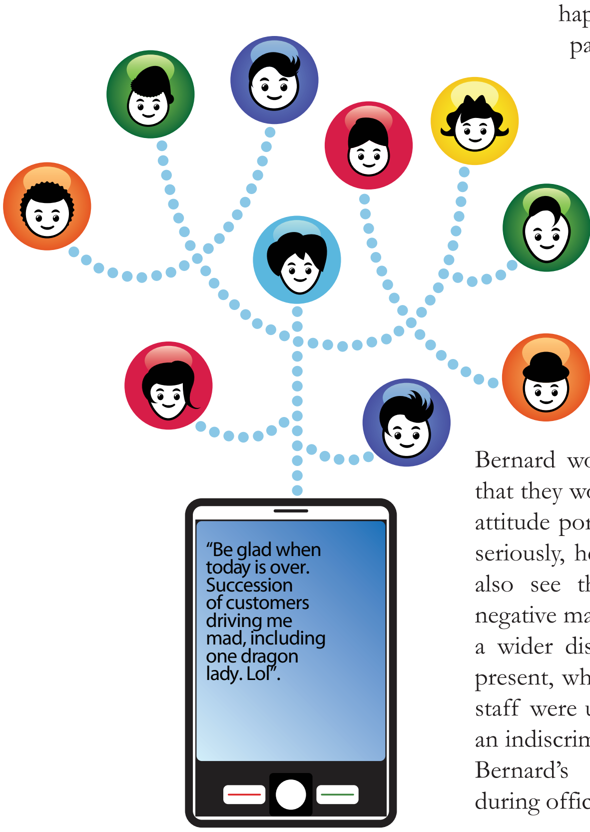
By Bob Souster

Bernard is a trainee manager who currently works in a customer-facing role with BBB Bank plc. Towards the end of a long, hard day at the office, he posted a note on a popular social networking site, "Be glad when today is over. Succession of customers driving me mad, including one dragon lady. Lol".

Bernard's pages were seen by Ian, a manager who works in his region. Ian happened to be in a hotel, and to pass the time that evening was idly surfing through various contacts.

It transpired that Bernard and Ian had mutual friends on the site.

Ian raised his concerns at a regional management meeting. He was concerned that many users of the social networking site would know that Bernard worked for BBB Bank plc, and that they would not be impressed with the attitude portrayed by the comment. More seriously, he believed that customers may also see the comment and react in a negative manner. Ian's explanation opened a wider discussion among the managers present, who debated the extent to which staff were using social networking sites in an indiscriminate manner. It was clear that Bernard's comment had been posted during office hours, and this prompted the managers to question whether use of social networking, or even personal telephone calls, should be permitted at all during periods when staff should be working.



One of Ian's colleagues pointed out that BBB Bank plc has a policy permitting staff to make personal domestic calls "within reason and at the discretion of the manager", but that the policy made no reference to social networking at all. She suggested that staff did not know where they stood on this issue, nor would younger members of staff consider it to be a major issue as long as they did their jobs to the best of their ability.

Another manager at the meeting held stronger views and stated that Bernard should be disciplined, serving as an example to his colleagues. A colleague responded that this would be an over-reaction, as it would be impossible to monitor the activities of staff, which could lead to some incidents being punished and others overlooked. This could result in major problems under employment law if BBB Bank plc was found to be applying its policies inconsistently.

The comparatively new medium of social networking presents both opportunities and threats to all organisations.

The positive aspects include the ability to spread positive messages far more quickly and with global reach, and many businesses have benefited from this. For

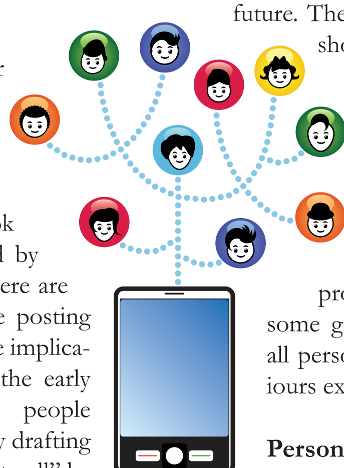
The ethical challenges when staff use social networks – and how to deal with them.

example, marketing departments know the potency of viral promotion, when an advertisement captures the imagination of the public and is widely disseminated within hours.

The scenario portrays some of the negative features associated with the medium. There are several specific issues relating to individual use of social networking and broader, more general issues relating to what individuals should be permitted to do during working hours.

Bernard's message

Bernard is a trainee manager and should therefore be mindful of the potential effect of his posts on his social network pages. Media such as Facebook and Twitter are now used by millions of people, and there are many examples of people posting before they think about the implications of their words. In the early days of email, many people jeopardised their careers by drafting emails and clicking "Reply to all" by accident.



In Bernard's case, he was wrong to depict customers as a nuisance, and one in particular as a "dragon lady", even if the person concerned was unlikely to see the post. Customers indirectly pay the salaries of those who serve them and they deserve a better attitude. If Bernard is in the habit of making similar statements on a regular basis, this should be a serious concern. If it was a frustrated, off-the-cuff reaction to a bad day, perhaps the bank should be more forgiving just once.

If Bernard is a Chartered Banker, or indeed holds any class of membership of the Institute, he has contravened the Code of Professional Conduct:

- Upholding the highest standards of diligence, integrity, honesty and trust
- Respecting myself, my colleagues and my customers

The key words here are "integrity", which suggests that the banker should apply consistently high moral standards, and "respecting… customers". Bernard's post displays anything other than respect for customers.

Bernard should definitely be instructed to avoid such indiscriminate posting in the future. The extent to which the bank should regard it as a disciplinary matter would depend on the extent to which Bernard's actions would be consistent with his general attitude and behaviour.

This incident should also prompt the bank to make some general policy statement to all personnel in relation to behaviours expected of them.

Personal communications during working hours

This issue has been debated widely in the national media and featured as a discussion topic on BBC Five Live recently. Contributors were divided on whether permitting staff to make personal calls or send personal emails during working hours was a good or bad thing. Some felt that most people were reasonable and would set sensible boundaries for themselves, while others stated that work time is business time, and that personal communications should not be permitted at all.

One pertinent concept here is moral intensity, in that the activity will be regarded as ethical or unethical depending on what is involved. For example, nearly

"It is a comparatively easy task to explain how social networking media can endanger the reputation of the bank by association."

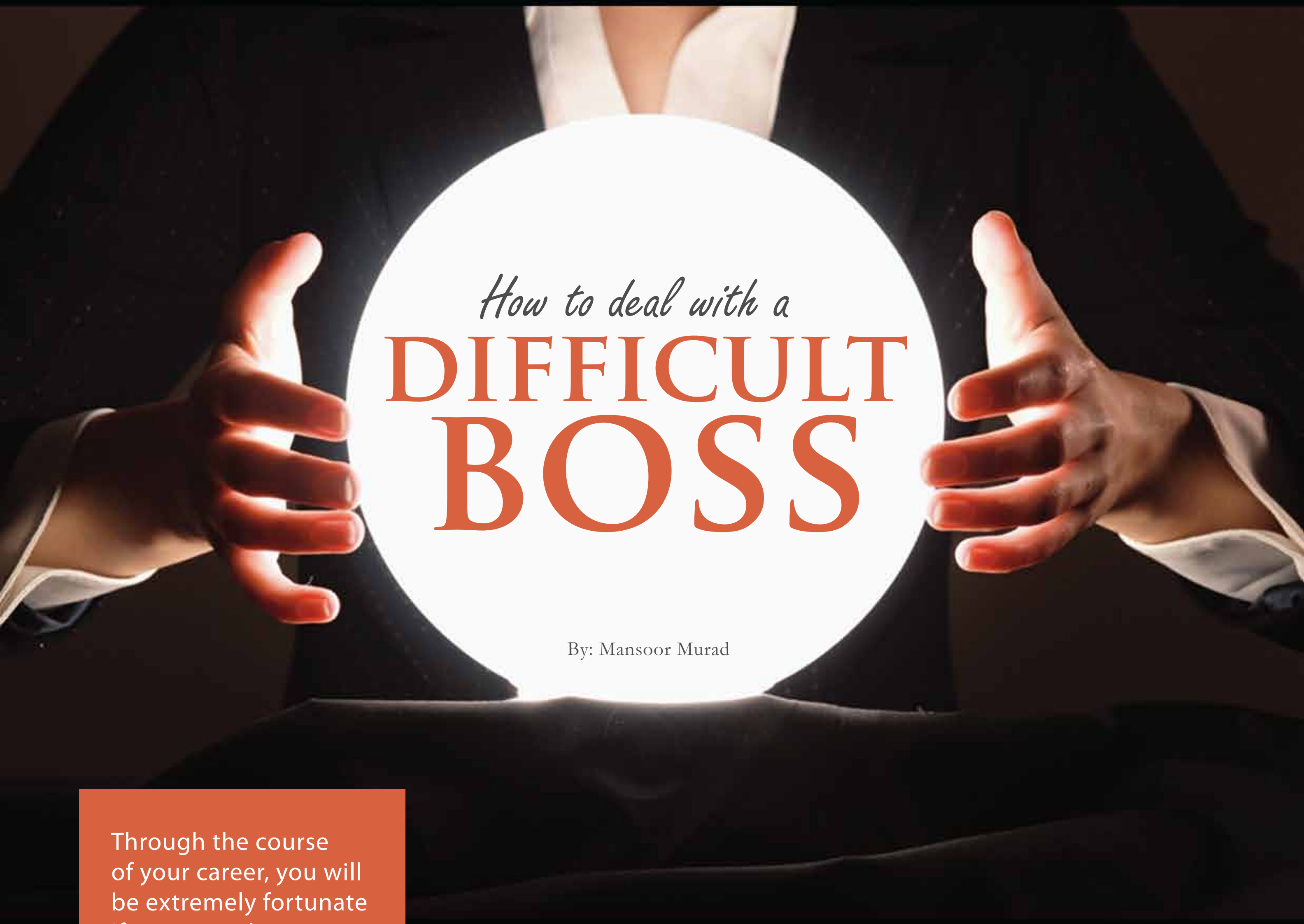
everyone would accept that a personal telephone call should be permitted if a domestic emergency arises, but few would accept that a personal call should be allowed to be made to a dating site.

Both cases involve using the organisation's resources for no sound business purpose, but the underlying context influences attitudes to it.
Some large companies have addressed this issue directly by blocking access to ISPs and selected external websites, and some of these have made internet facilities available for use by staff during rest periods, but away from workstations.
Inevitably, even if members of staff cannot use workstations for personal communications, there is little to stop them from using their own smartphones during office hours.

Clearly, BBB Bank plc has an outdated policy, and its management has to decide where it stands on these issues and publish a policy so that employees know what is expected of them.

The bank cannot hope to avoid any exposure on social networking media, as staff will inevitably post photographs, comments and even videos that suggest some link with the organisation. However, it is a comparatively easy task to explain how social networking media can endanger the reputation of the bank by association, and to deter staff from making comments such as those posted by Bernard.

This article was first published in Chartered Banker, the magazine of the Chartered Banker Institute.



How to deal with a DIFFICULT BOSS

By: Mansoor Murad

Through the course of your career, you will be extremely fortunate if you never have one of those bosses. You know the kind who flies off the handle for no reason, changes deadlines all the time, makes you work all kinds of crazy hours or is generally insufferable. To top it all off, here in Pakistan there is no great expectation that you should be anything but miserable at work.

When you talk about your boss to your friends over a cup of tea, they tell you that they are in the exact same situation and that you should stop complaining. However, that is no solution. Most of us spend majority of our waking hours at work, and if your boss is a source of stress then that can easily create a toxic work environment. However, many of the tips for dealing with such a situation that you may find on the internet are very heavily skewed towards the western world, where the office culture and norms are sometimes significantly different from ours. Bearing that in mind, here are some tips for what to do when you find yourself working with a difficult boss.

INTROSPECTION

In my experience, supervisors who have a reputation for being difficult are often just as frustrated as their teams. Take an honest look at your own job performance. Are there areas where there is genuine room for you to step up your game? If you are repeating the same mistakes or not catching things

"PUT YOURSELF IN HIS SHOES,AND YOU MAY SEE YOUR BOSS'S BEHAVIOUR IMPROVE FASTER THAN YOU WOULD HAVE THOUGHT POSSIBLE."

which you normally should, your supervisor may have lost faith in your ability to get things right first time. Put yourself in his shoes, and you may see your boss's behaviour improve faster than you would have thought possible. Also, look at the entire package being offered by your role. If your boss is a difficult person to work with, but you love your work, your strategy should be completely different to a situation where you are not enjoying what you do. Another important thing to consider is whether your supervisor's behaviour has changed recently; in which case, it is likely to be a temporary phase brought on by the pressures he is under.

Finally, if you are doing great work then you are not giving your boss any excuse to come after you. Although there are few things more frustrating than to feel that your boss is unfairly loading you with too much work, remember that this is always a great learning opportunity in the short term, and even if your boss is not willing to give you the right credit, others in the organisation will notice; something that will not harm your prospects in the organisation in any way.

COMMUNICATION

Ideally, you should be able to have a conversation with your boss to voice your concerns and seek his help in addressing them. This will be a very tricky conversation, as you have to make sure that your supervisor understands that you are not criticizing him, but are trying to share your discomfort with the working environment in an effort to improve it. Therefore, it is important to rehearse it in advance and make sure that you are clear on what areas you will focus upon. Sometimes, simply putting things on the table is sufficient to cause a significant improvement in the environment.

ANTICIPATION

There are often telltale signs that your boss is about to have an unpleasant episode. It is vital to gain an understanding of these signs and have set responses prepared accordingly. If your boss is unpredictable, have a variety of responses ready in advance, to be used depending on how he behaves at the time. If you can tell the boss is in a bad mood, avoid him if you can, so that he doesn't use his bad day to give you one also.

If your boss is a bully, remember that bullies only pick on the weak. Give the outward appearance of strength by appearing confident, calm and composed. Simply not reacting negatively to bullying can often mean that the bully will move on and look for an easier target. But remember that in Pakistan the power structure is different as compared to the west. So before standing up to a bully (and here I mean pushing back, rather than refusing to react), think through your options just in case if matters become worse.

KEEP IT PROFESSIONAL

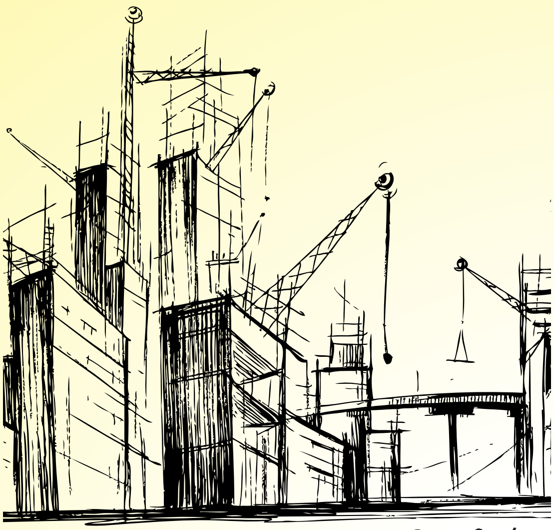
The old adage of apne kaam se kaam rakhna applies very well to such a situation. The less you interact with a difficult boss, the more you can keep such interactions focused squarely on the project at hand, the better the chance of emerging from such a conversation unscathed. You cannot change your boss' behaviour, but you can change the dynamics of your interaction with him. Extremely important in this context is to keep your emotions under check. When you feel yourself about to react emotionally to such a situation, take a break. Walk away from your desk for a cup of tea, or just a short walk to allow yourself some time to calm down.

It is also vital not to take this baggage home with you. If you need to vent, do it to a trusted friend over a cup of tea, get it out of your system and move on. The worst thing you can do is let an unhappy situation at work make your home life unhappy as well.

PLAN FOR THE WORST

Ultimately though, if the situation does not change, you have to change the situation. No job is ever worth your mental health, and at the end of the day, you need to take a call on whether the value you are extracting from your current position (whether financial or professional) is worth the added stress. If you ask to shift to another department and your work performance has been good, HR will generally sympathise and help you out, even without formally stating a toxic boss as the reason for the move.

The economic situation is never so bad implying that it would be impossible for you to find another role. You may need to make some trade-offs in order to improve your stress levels but you may find that in the long term these are worth the short term pain. Not to mention having a golden opportunity to unburden yourself fully in your exit interview.



Paulo Coelho

DESTROYING & REBUILDING

I am invited to go to Guncan-Gima, the state of a Zen Buddhist temple. When I get there, I'm surprised that the extraordinarily beautiful building, which is situated in the middle of a vast forest, is right next to a huge piece of waste ground.

I ask what the waste ground is for and the man in charge explains:

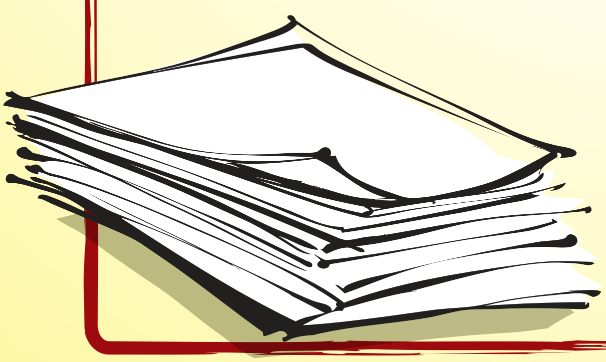
'That is where we build the next temple. Every twenty years, we destroy the temple you seen before you and rebuild it again on the site next to it. This means that the monks who have trained as carpenters, stonemasons, and architects are always using their apprentices. It also shows them that nothing in this life is eternal, and that even temples are in need of constant improvement.'

View on Bankers

on lighter side

- The safe way to double your money is to fold it over once and put it in your pocket. ~Frank Hubbard
- If you lend someone $20, and never see that person again, it was probably worth it. ~Author Unknown
- A bank book makes good reading - better than some novels. ~Harry Lauder
- If all bank loans were paid...there would not be a dollar of coin or currency in circulation. ~Robert Hemphill
- Bankers know that history is inflationary and that money is the last thing a wise man will hoard. ~Will Durant
- The job of the Central Bank is to worry. ~Alice Rivlin

INTERESTING QUOTES



- Between two evils, I always pick the one I never tried before. Mae West
- Get your facts first, then you can distort them as you please. Mark Twain
- People who think they know everything are a great annoyance to those of us who do. Isaac Asimov
- If the facts don't fit the theory, change the facts. Albert Einstein
- It takes considerable knowledge just to realize the extent of your own ignorance. Thomas Sowell