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Pakistan

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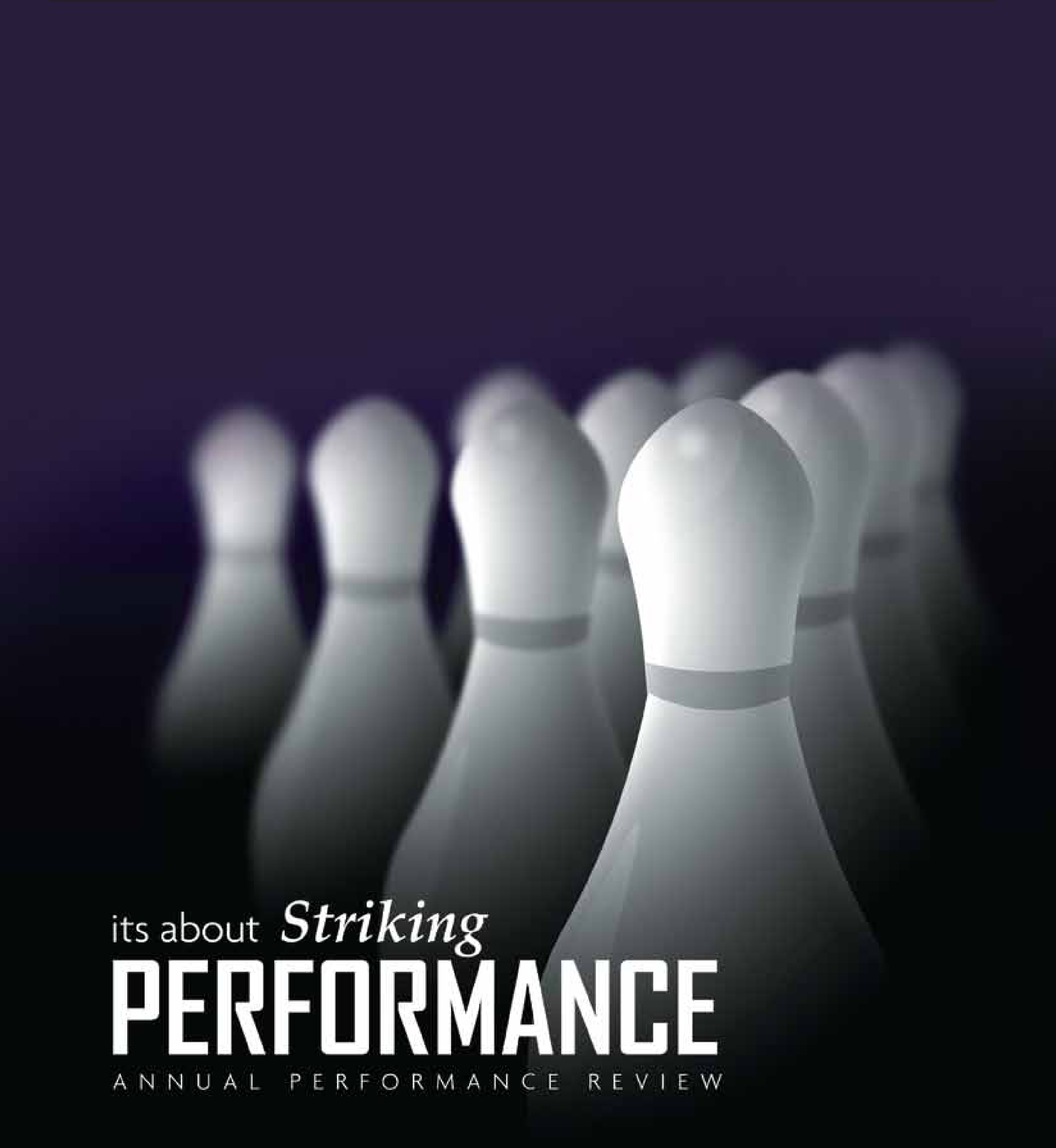

editorial

In the 1970s, inspired by the socialist economy, Pakistani government authorities undertook a redistribution of assets, from the private sector to the state. The collapse of the socialist model, and bankruptcy of the economies following the same, rendered the subject economic ideology outmoded. This paradigm change led to policy reforms and privatization initiatives being introduced by the government in 1991.

Now, in 2014, the re-instated Nawaz government once again aspires to embark on a fast-track ambitious program to bring in proceeds of Rs. 150 billion by end June 2014 through the privatization of several state-owned enterprises (SOEs) including: Pakistan Steel Mills (PSM), Faisalabad Electric Supply Company (FESCO) and Thermal Power Station (TPS) in Muzaffargarh (GENCO-III) and the national carrier Pakistan International Airline (PIA).

According to some, privatization of assets has not contributed to sustainable growth in the Country's GDP and employment. In an analysis of Pakistan's privatization drive in the '90s, dated 1998, the Asian Development Bank supports this claim by observing that 'only 22 per cent of the privatized units performed better than in the pre-privatization period; 44 per cent performed the same whereas approximately a third (34 per cent) performed worse.'

While privatization may be the necessary course of action in the case of some public enterprises, in other cases it has the potential to be detrimental to the society. Enterprises whose commercial promise is not proportionate to the significant role they play in the public's livelihood are better off in the control of the state. If private concerns were to the run the railway industry, for example, they would not find it feasible to run on routes in remote areas that do not generate much revenue.

A study of Pakistan's economy and commerce reveals that poor governance, and not ownership structure, has been the root cause of starring state-owned enterprise (SOE) failures. Governance quality is a critical success factor for both private and public enterprises. Poor governance can as easily bring a private concern down; it is only less evident and occurring in the private sector because profit-seeking private investors/stakeholders are more driven to supervise their organizations closely.

Many organizations contributing to China's long-sustained economic growth remain state-owned. The state-owned enterprises in Pakistan, too, have not always been generically categorized as loss-making entities. PIA and Pakistan Railways have seen a prime where they were highly successful and renowned worldwide.

Privatization initiatives cannot be successful without preparation – the government should first ensure that the subject entity will be more productive and effective in the private sector. Privatization should be driven by the motive of enhancing efficacy of enterprises, not as a cash inflow faucet. Often times, SOE's take the hit due to the government's inability to tax the rich and generate resources; when 'not having enough resources' to sustain public enterprises is cited as a reason to privatize, fiscal indiscipline is the root problem and issue at hand – not public-private ownership.

Fiscal distress notwithstanding, the ailing up-for-sale public organizations require overhauls, restructuring and investment levels, the likes of which the government does not have resources to make. While nationalization was undertaken primarily so that the poor benefitted from state control over assets, the less-economically-privileged have in reality witnessed state corporations draining budgeted state resources; approximately Rs. 500 billion is annually spent to keep public sector corporations, banks and other enterprises afloat.

The privatization initiative of Pakistan Steel Mills was stalled in 2006. Since then, the state has injected –and continues to inject - billions of Rupees into the loss-making entity. PTCL, on the other hand, has exhibited significant enhancement of operational efficiency since it was partially sold to Etisalat in 2005.

Free markets (if they can be called so despite being moderately regulated) are the optimal economic architecture for efficient allocation and utilization of resources. It is therefore argued that management of businesses and commerce should be left to private concerns. Doing so can markedly reduce corruption and generate sustainable and equitable growth in the country. Letting private enterprises, and investors, do their job can also dissuade nepotism and cut down the 'private profits' that often change hands to cut the bureaucratic red tape and oil cogs in the state machines.

The relative inefficiency of public enterprises stem from the fact that their respective managements do not have any direct personal incentives tying them to the business output. Comparatively, the performance - driven compensation structure of private sector organizations is theoretically and actually more productive and commercially viable.

The Pakistani banking sector is a good example of market-based competition, privatization and sound regulation having yielded industry-wide reformation during the last several years. The banking system proved its strength by withstanding the pressures emanating from the global financial crises and local economic challenges. Such a model should be replicated across the different sectors in the economy.

We have witnessed many a private organization fail, and be bailed out by governments, to know the vital role of governments in 'free-market' systems. We have also seen required investment in organizations being ignored due to depleted fiscal accounts.

Keeping both ends of state-involvement in consideration, the optimal role of the establishment appears to be: to provide a conducive business environment geared towards sustainable economic growth – while effecting socio-economic change through investment in human development and infrastructure. Beyond this, the government should do what its name etymologically implies – 'govern' and regulate the market to ensure fair play and ethical practice of business.

Sirajuddin Aziz
Editor-in-Chief

IBP Superior Qualification

Examination Schedule
Summer 2014
All times are Pakistan Standard Time (PST)

Day & Date	Time	Stage 1 (JAIBP)	Stage 2 (JAIBP)	Stage 3 (JAIBP)	Associateship (AIBP)
Monday 21 April 2014	9:00a.m to 12 noon	Introduction to Financial Systems & Banking Regulations			
	2:00p.m to 5:00p.m			Management Accounting for Financial Services	Financial Planning & Budgeting
Tuesday 22 April 2014	9:00a.m to 12 noon	Information Technology in Financial Services		Finance of International Trade & Related Treasury Operations	
	2:00p.m to 5:00p.m		Human Resource Management & Organizational Behavior		Advance Risk Management
Wednesday 23 April 2014	9:00a.m to 12 noon	Business Communication for Financial Services			
	2:00p.m to 5:00p.m		Economics		Anti Money Laundering Measures and Business Ethics
Thursday 24 April 2014	9:00a.m to 12 noon	Branch Banking		Specialization Subjects**	
	2:00p.m to 5:00p.m		Lending, Products, Operations & Risks Management		Corporate & Banking Law
Friday 25 April 2014	9:00a.m to 12 noon			Marketing of Financial Services	Specialization Subjects*
	2:30p.m to 5:30p.m		Accounting for Financial Services		

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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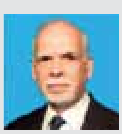

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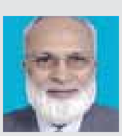
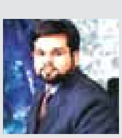


ABDUL GHAFOOR MALIK has a diverse career of over 37 years in Human Resource Management, Administration, Marketing, Banking and Agriculture. As a Banker, he has worked in Research Division, General Banking and Agriculture Credit Division of one of the leading banks.

BOB SOUSTER is Module Director, Professional Ethics, Chartered Banker MBA at Bangor University.



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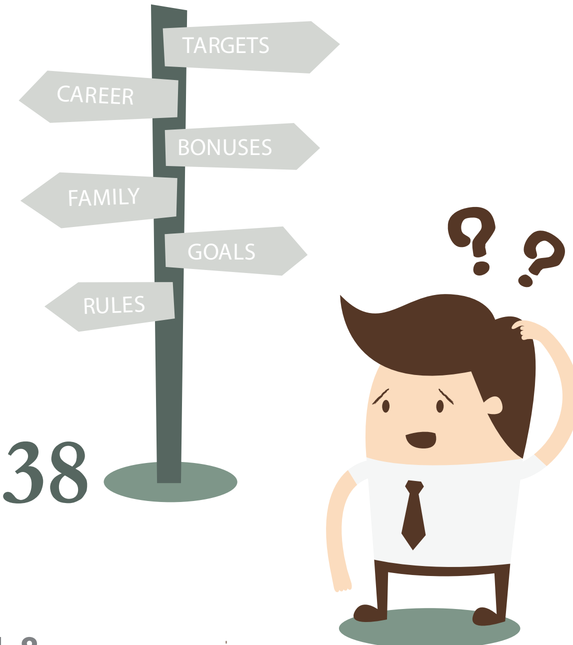

Personal & Professional Development

Technology

Student Resources-Islamic Banking

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By the time you finish reading these lines, a contented middle aged farmer from a small village near Sahiwal will be on his way back home after a busy day in the fields.

Khushhalibank has always been engaged in bringing a change in the life of many such farmers. Access to micro loans and allied financial services have enabled millions of such individuals turn their dream of a better life into reality. Their present is prosperous and future promising.

Today, we stand with a renewed pledge of giving common people an uncommon advantage to realize their potential for sustained economic growth throughout the country. Which is why Khushhalibank is more than a bank. It's a promise, a promise to opportunity.

RED COMMUNICATION ARTS

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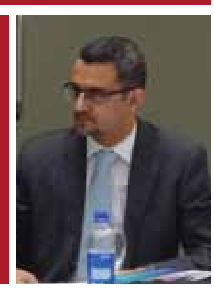
| prosperity on all accounts |

A body corporate established under the Microfinance Institutions Ordinance, 2001

SECOND MEETUP

IBP HR WORKING GROUP

FEBRUARY 11, 2014



The Institute of Bankers Pakistan hosted the second HR Working Group meeting on February 11, 2014. This meeting was held under the chairmanship of Mr. Sirajuddin Aziz (President - Habib Metropolitan Bank), Member of IBP's Academic Board and Chairman of IBP's Editorial Board. The meeting was held at IBP and was attended by 20 delegates from 16 banks and financial institutions.

The IBP HR Working Group is an initiative by the Institute to bring together the HR, learning and development teams of banks in an effort to understand their developmental needs along with introduction of various initiatives that the IBP has undertaken.

The meet started with a comprehensive overview of the IBP's banking diploma program- ISQ which is accredited by Chartered Banker Institute, UK. The improvements made to the Junior Associateship of the ISQ were discussed.

In most industries, entrants require a qualification, however, banking is one of the rare industries that does not require any pre-qualification to enter. A person learns after joining mostly on-the-job and through job-specific training programs. JAIBP as the base-line qualification would help increase the productivity of the entrants as well as provide banks with a job ready workforce which has an understanding of banking, its products, regulations and market dynamics.

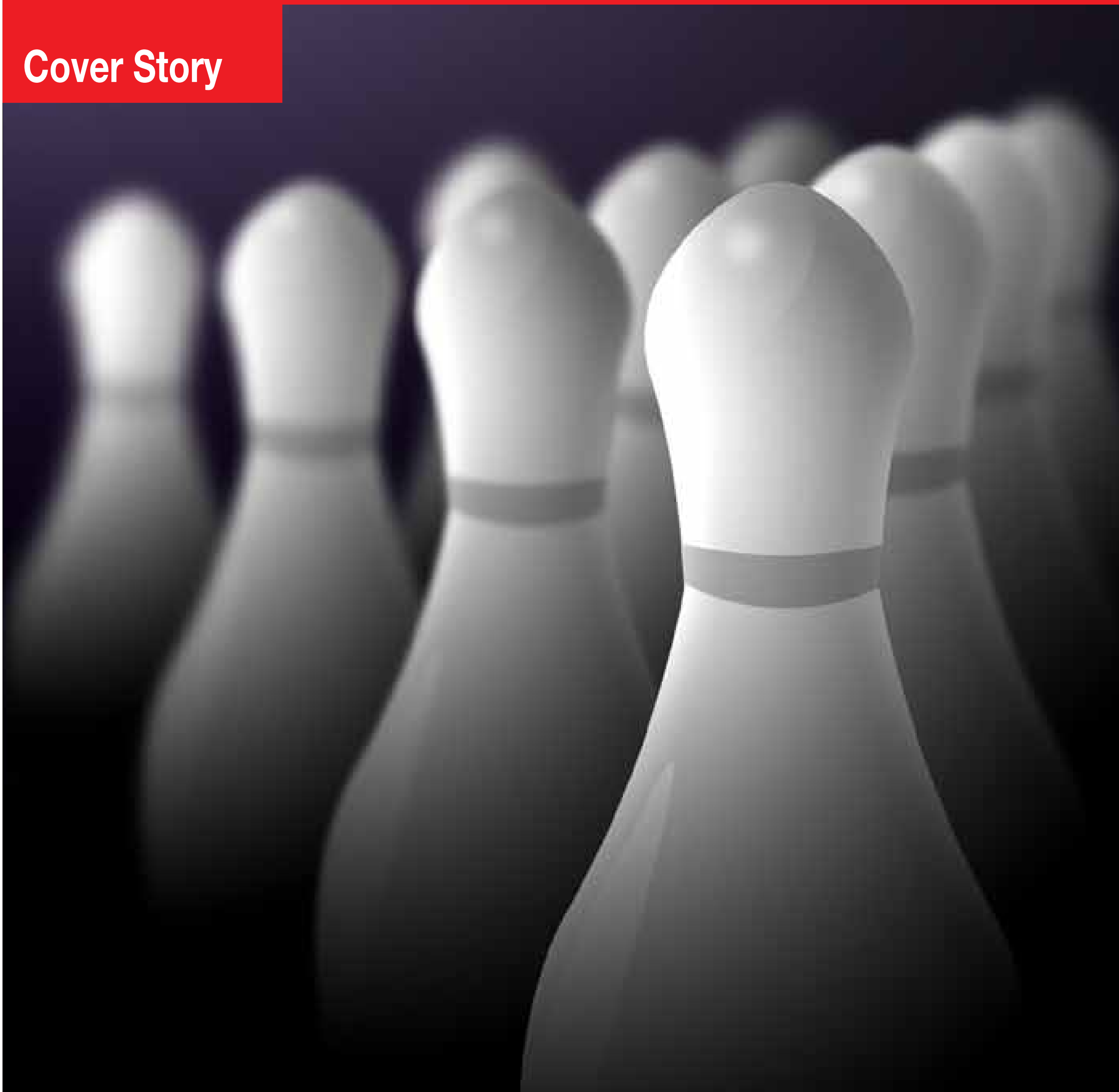
Mr. Sirajuddin Aziz in his key note address highlighted the importance of the group to the industry and the need for continuity of the meetings. He stated that shared knowledge is essential to progress of the banking industry and the role of the group in the industry was thus vital. Emphasis on learning activities at various levels throughout the organization should be created. He felt that through sharing of ideas, banks could identify the improvements required and help IBP create and deliver programs which would bridge such gaps.

A base-line qualification such as the JAIBP will provide banks with a job-ready workforce which has an understanding of banking, its products, regulations and market dynamics.

Mr. Murtaza Y. Rizvi, SVP, MCB Bank Limited who spoke about the inclusion of the JAIBP as part of the bank's HR strategy. He discussed the practices of MCB and explained that the bank hires approx. 600 – 700 new recruits annually who are put through a 3-year fast-track program. One of the key elements of their learning paths is the JAIBP program.

He explained that the various activities undertaken to promote JAIBP within MCB employees included motivation to register, incentives on qualification and additional weightage in performance rating among others. He also mentioned the establishment of help desks within the bank managed through the learning centers. In addition to reimbursements of ISQ related costs, ISQ reference books are purchased centrally by the bank and provided to employees free of cost. He mentioned that the specific budget has been allocated for the ISQ/JAIBP related costs as part of the annual budget.

The group agreed unanimously on the importance and impact of the JAIBP program.This meet is part of an effort by the Institute to provide the HR and Learning professionals with a platform to engage and exchange ideas. In the instance you would like to participate please write to us at fayyaz@ibp.org.pk.



Annual PERFORMANCE REVIEW 2013

By Bilal Arshad

BANKING SECTOR EARNINGS DECLINE

Lower interest rate environment and changes in regulatory regime for banking sector weighed on banks' profitability, which underwent decline of 4.4% in 2013 compared to increase of 8.6% in previous year (based on our sample of 14 large and mid-size banks). Among big 5 banks, ABL posted 25.8% growth in Profit After Tax (PAT) to PKR14.6bn in 2013 on the back of tax reversal of around PKR4.4bn. MCB and UBL both posted 4% growth in PAT to PKR21.5bn and

PKR18.6bn respectively owing to growth in non-interest income, lower provisioning and reduced deposit cost. HBL reported net income of PKR23bn, exhibiting increase of 1% year-on-year due to lower provisioning and non-interest income growth. NBP's earnings dropped by 63.2% to PKR5.5bn in 2013 owing to 82% higher provisioning expense and higher deposit cost, which resulted in significant reduction in Net Interest Margin as interest rates also reduced during the year.

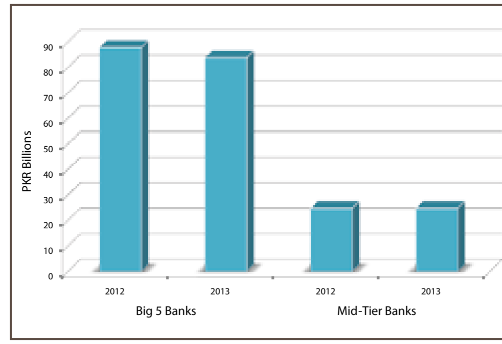
Among mid-tier banks, SCB posted highest PAT of PKR10.5bn in 2013, registering an increase of 78.1% year-on-year due to change in accounting treatment of its operating expenses and reversal in provisioning expense. BAHL reported PAT of PKR5.2bn, depicting drop of 5.5% from year earlier despite growth in non-interest income, due to reduction in net interest income and higher operating expenses. BAFL posted 2.6% growth in earnings to PKR4.7bn due to lower provisioning and increased non-interest income, which more than offset the impact of reduced net interest income and increased operating costs. HMBL's PAT for 2013 increased by 3.5% to PKR3.5bn on the back of lower provisioning and slight increase in net interest income.

DEPOSITS UP 13.7%

Deposit base of big 5 banks grew to PKR4,571 on aggregate basis, registering year-on-year growth of 14% in 2013. Mid-Tier Banks' total deposits increased by 13.3% to PKR2,614bn over the same period. Among big 5 banks, UBL boasted the highest year-on-year deposit growth of 18.5% to PKR828bn, however HBL retained its position as industry leader with largest deposit base of PKR1,401bn. SNBL outperformed other Mid-Tier Banks with highest deposit growth at 16.6% to PKR141bn while BAFL had largest deposit base of PKR526bn in the group.

Within the deposit mix, fixed deposits, savings accounts and current accounts of big 5 banks grew by 7.7%, 17.8% and 17.8% respectively to PKR1,140bn, PKR1,698bn and PKR1,532bn respectively in 2013. Meanwhile, Mid-Tier Banks' fixed deposits, savings accounts and current accounts underwent increase of 5.9%, 14.5% and 19.8% respectively to PKR705bn, PKR987bn and PKR835bn respectively.

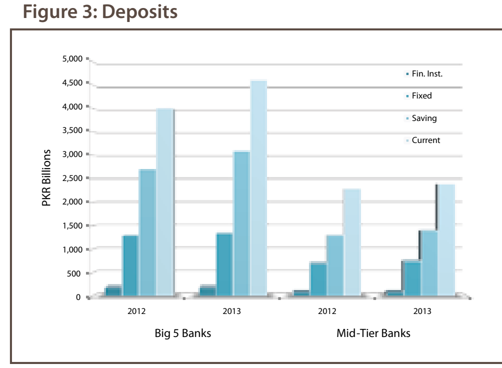
Figure 1: Profit after Tax



Source: Banks' Financial Statements

"Big 5" Banks	"Mid-Tier" Banks
• Allied Bank (ABL)	• Askari Bank (AKBL)
• Habib Bank (HBL)	• Bank Al Habib (BAHL)
• MCB Bank (MCB)	• Bank Alfalah (BAFL)
• National Bank of Pakistan (NBP)	• Faysal Bank (FABL)
• United Bank (UBL)	• Habib Metropolitan Bank (HMBL)
	• NIB Bank (NIB)
	• Soneri Bank (SNBL)
	• Standard Chartered Bank (SCB)
	• Bank of Punjab (BOP)

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	
	2013	YoY Change	2013	YoY Change
Net Interest Income	190,694	-4.3%	90,135	-0.5%
Non-Interest Income	83,781	4.9%	39,881	1.5%
Provision & Charges	23,760	-11.1%	16,135	1.4%
Profit After Tax	83,280	-5.3%	24,472	-1.3%
Return on Equity	15.2%	-2.9%	11.2%	-0.9%
Net Interest Margin	4.1%	-0.8%	3.5%	-0.4%
Advances/Deposits Ratio	45.6%	-5.0%	52.7%	-1.1%
Non-Performing Loans (NPL)	266,454	4.4%	224,303	-5.4%
NPL Coverage (Specific)	79.5%	1.3%	68.8%	7.2%
Portfolio Infection Rate	11.8%	0.1%	14.6%	-2.4%
Investments/Deposits Ratio	53.8%	0.0%	48.2%	-5.6%
Cost/Income Ratio	48.3%	4.9%	60.3%	0.8%

"AMONG MID-TIER BANKS, SCB POSTED HIGHEST PAT OF PKR10.5BN IN 2013, REGISTERING AN INCREASE OF 78.1% YEAR-ON-YEAR DUE TO CHANGE IN ACCOUNTING TREATMENT OF ITS OPERATING EXPENSES AND REVERSAL IN PROVISIONING EXPENSE."

In an unprecedented move in Sep'13, State Bank of Pakistan (SBP) linked Minimum Deposit Rate (MDR) on Savings Accounts with SBP Repo Rate, which is the rate at which banks deposit their excess cash with SBP on an overnight basis. Earlier in 2013, SBP had instructed banks to use average monthly balance in savings accounts for profit calculation from 1st Apr'13, resulting in increased cost of funds for banks. By pegging MDR on average balances of Saving Accounts 50 basis points (bps) below SBP repo rate from 1st Oct'13, SBP had furthered its efforts to limit banking sector spreads. However, banks with higher percentage of current accounts in their deposit mix will still reap benefits of future interest rate hikes.

ADVANCES UP 5.9%; INVESTMENTS INCREASE BY 9.4%

Cumulative advances of big 5 banks increased by 2.7% year-on-year to PKR2,085bn in 2013, meanwhile the group's investments posted increase by 13.9% to PKR2,460bn on consolidated basis. Aggregate advances of mid-tier banks increased by 11% to PKR1,378bn while the group's investments grew by 1.6% to PKR1,259bn. During 2013, HBL and SNBL exhibited the highest percentage growth of 12.8% and 26.5% respectively in advances, while ABL and FABL had the largest percentage increase of 35.9% and 28.7% respectively in investments in their respective groups.

> "HBL RETAINED ITS POSITION AS INDUSTRY LEADER WITH LARGEST DEPOSIT BASE OF PKR1,401BN.SNBL OUTPERFORMED OTHER MID-TIER BANKS WITH HIGHEST DEPOSIT GROWTH AT16.6% TO PKR141BNWHILE BAFL HAD LARGEST DEPOSIT BASE OF PKR526BN IN THE GROUP."

Advances-to-deposits ratio (ADR) of Big 5 and mid-tier banks stood at 45.6% and 52.7% respectively in 2013 down from 50.6% and 53.8% respectively a year ago. Investments-to-deposits ratio (IDR) of big 5 banks was maintained at 53.8% in 2013 but IDR of mid-tier banks dropped from 53.7% in 2012 to 48.2% a year later. NBP and NIB had ADR of 55.9% and 78.2% in 2013, highest among their respective groups.

NON-PERFORMING LOANS SHOW MARGINAL DECLINE

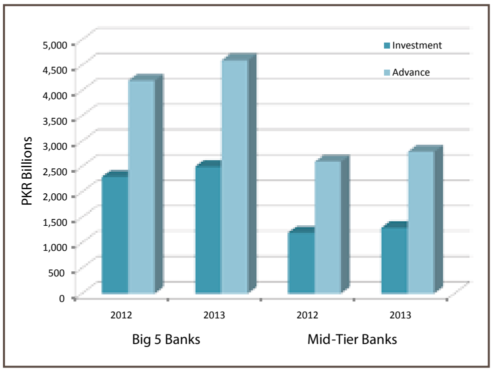
Non-Performing Loans (NPLs) of big 5 banks increased by 4.4% year-on-year to PKR266bn during 2013, while that of mid-tier banks witnessed decline of 5.4% to PKR224bn. Among big 5 banks, MCB posted the largest percentage drop of 9% in NPLs during 2013 and NBP had the largest stock of NPLs amounting to PKR116bn. Among mid-tier banks, BAFL reported the largest percentage decline of 19.1% in NPLs, while BOP had the largest volume of NPLs to the tune of PKR60bn in 2013.

Portfolio infection rate (as measured by NPLs/Gross Loans) of big 5 banks was maintained at 11.8% in 2013, while that of mid-tier banks dropped from 17% to 14.6% over same period. ABL and BAHL had the lowest infection rates of 6.8% and 2.1% among Big 5 and mid-tier banks respectively.

NET INTEREST MARGINS CONTRACT

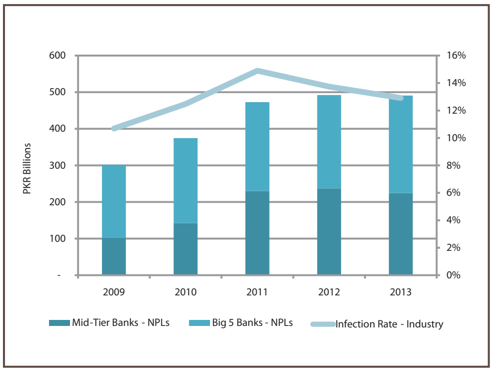
Net Interest Margins (NIMs) of Big 5 and mid-tier banks declined from 4.9% and 3.9% respectively in 2012 to 4.1% and 3.5% respectively in

Figure 4: Earning Assets Composition



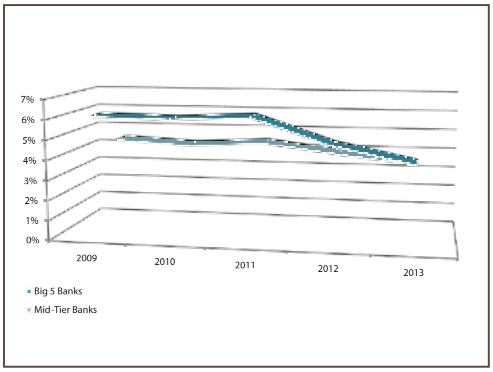
Source: Banks' Financial Statements

Figure 5: NPLs and Portfolio Infection Rates



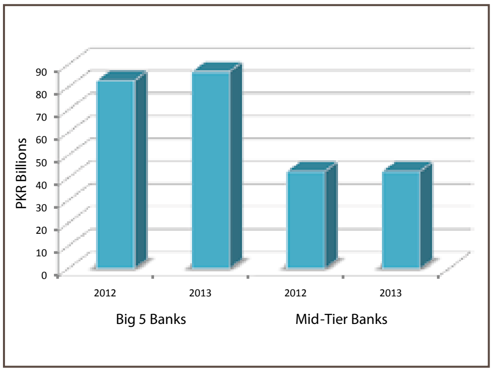
Source: Banks' Financial Statements

Figure 6: Net Interest Margins (NIMs)



Source: Banks' Financial Statements

Figure 7: Non Interest Income



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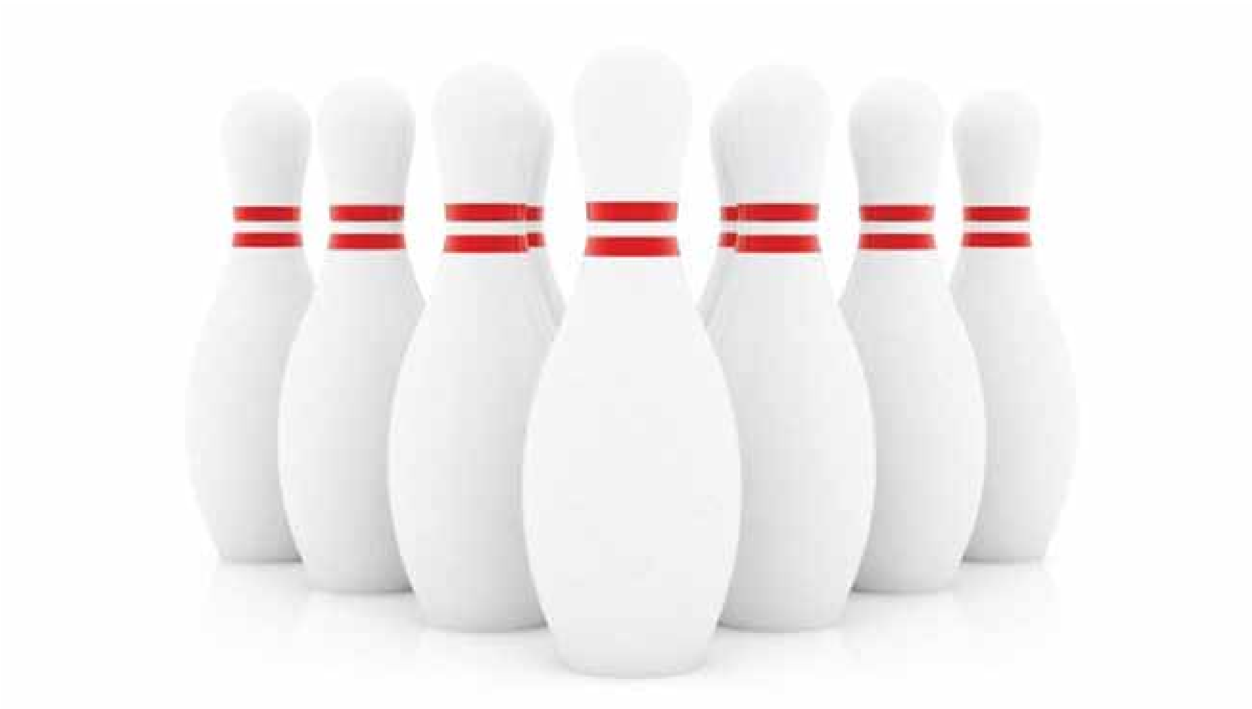


2013 owing to lower interest rate levels, moderate growth in advances and increased cost of deposits as a result of SBP's regulatory moves during the year. ABL experienced marginal contraction in NIMs from 4.1% in 2012 to 4% 2013, lowest drop among big 5 banks. MCB's NIMs underwent most contraction in the group from 6.5% in 2012 to 5.3% a year later. However, MCB still had the highest NIMs among big 5 banks. Among mid-tier banks, BOP posted slight improvement in NIMs to 2% in 2013 from 1.8% a year ago; however, its NIMs were lowest among peers. BAFL exhibited largest contraction in NIMs from 4.3% in 2012 to 3.5% in 2013. SCB posted the highest NIMs of 5.8% in the category.

NON-INTEREST INCOME GROWTH SLOWS DOWN

Non-interest income, which constitutes fees & commission income, income from dealing in foreign exchange, capital gains and dividend income, had been instrumental in boosting banking sector profits in recent years. However, non-interest income of Big 5 and mid-tier banks displayed moderate growth of 4.9% and 1.5% respectively to PKR84bn and PKR40bn respectively in 2013. MCB and BAHL posted the highest year-on-year increase in non-interest income of 22% and 32.6% to PKR11bn and PKR3.9bn respectively, among their respective categories. Fees & commission income and capital gains contributed to non-interest income growth for big 5 banks, while Mid-Tier Banks' non-interest income growth was primarily contributed by income from foreign exchange dealing.

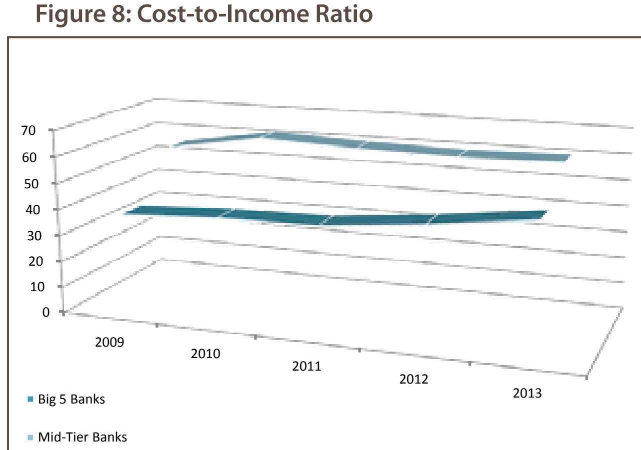
COST-TO-INCOME RATIO INCREASES

Cost/Income ratio (as measured by Operating Expenses/Sum of Net Interest Income & Non-Interest Income) of Big 5 and mid-tier banks increased to 48.3% and 60.3% in 2013 from 43.4% and 59.5% last year. MCB and SCB had the lowest cost/income ratios of 38.2% and 36.1% respectively in 2013 among their respective groups.

SECTOR OUTLOOK

Monetary tightening seems off the table due to easing inflationary pressures and improved external position. This, coupled with direct linkage of MDR with SBP Repo Rate will keep banking margins expansion in check and banks will rely on balance sheet expansion and non-interest income to support their bottom-line. Revival in economic activity will provide banking sector with lending opportunities while improving recoveries, resulting in further reduction in banks' NPLs.

Figure 8: Cost-to-Income Ratio



Source: Banks' Financial Statements

BALANCE SHEET 2013

PKR Million	BIG FIVE BANK					MID-TIER BANKS								
	NBP	HBL	UBL	MCB	ABL	BAFL	AKBL	FABL	BAHL	HMBL	NIB	SNBL	SCB	BOP
Cash & Treasury Balance	157,930	135,477	88,521	59,946	44,673	61,205	26,105	28,422	32,200	21,209	8,006	12,673	32,331	23,821
Deposits with Banks	17,458	57,342	25,867	1,537	1,102	35,180	9,058	1,012	2,663	3,553	692	957	1,452	4,265
Lending to FIs	51,939	35,271	28,835	1,225	12,461	2,522	2,503	300	-	-	2,128	2,738	22,159	11,407
Investments	397,959	826,062	423,777	449,006	363,379	219,690	165,863	113,319	239,753	142,444	61,059	46,703	146,687	123,956
Gross Investments	372,312	827,489	421,931	449,574	355,054	225,035	166,995	116,100	239,293	141,963	62,261	46,593	147,438	127,213
Interest Bearing	316,826	807,078	396,578	439,997	319,186	213,798	161,672	112,261	234,485	129,874	55,921	44,938	145,955	124,115
Non-Interest Bearing	55,486	20,411	25,354	9,576	35,868	11,237	5,324	3,839	4,809	12,090	6,340	1,655	1,483	3,098
Reval Surplus/Deficit	41,063	106	3,322	1,982	9,910	786	398	(350)	465	671	(735)	245	109	(90)
Provision for Diminution	(15,417)	(1,532)	(1,476)	(2,550)	(1,585)	(6,131)	(1,530)	(2,431)	(6)	(191)	(467)	(134)	(860)	(3,167)
Advances	615,420	563,701	390,813	248,243	267,001	260,780	163,557	184,190	167,579	129,834	82,001	97,179	135,495	157,286
Local Currency	634,465	379,288	291,424	222,305	267,078	245,503	181,462	202,726	140,690	115,796	100,750	94,657	145,263	182,533
Foreign Currency	73,550	184,413	145,325	45,887	18,298	28,325	10,709	1,618	32,973	28,348	3,809	9,661	12,311	427
Gross Loans	708,015	606,071	436,749	268,192	285,376	273,827	192,171	204,343	173,663	144,144	104,559	104,318	157,574	182,961
Domestic	634,465	422,891		243,977	280,459	257,333	181,228	203,109	147,605	124,874	101,397	98,105	150,684	180,390
Overseas	73,550	183,180		24,215	4,916	16,495	10,943	1,235	26,058	19,270	3,162	6,213	6,890	2,571
Bad Debt Provisions	(92,595)	(42,370)	(45,936)	(19,949)	(18,375)	(13,047)	(28,614)	(20,153)	(6,083)	(14,310)	(22,558)	(7,139)	(22,079)	(25,675)
Specific	(89,737)	(40,220)	(44,097)	(19,450)	(18,242)	(12,441)	(28,279)	(19,747)	(3,543)	(13,456)	(22,489)	(7,109)	(21,518)	(25,634)
General	(2,858)	(2,150)	(1,839)	(499)	(132)	(606)	(335)	(406)	(2,540)	(854)	(69)	(30)	(560)	(42)
Bad Debt Provisions	(92,595)	(42,370)	(45,936)	(19,949)	(18,375)	(13,047)	(28,614)	(20,153)	(6,083)	(14,310)	(22,558)	(7,139)	(22,079)	(25,675)
Domestic	(77,555)	(26,734)	(37,742)	(17,421)	(18,375)		(28,031)	(20,153)	(5,654)	(14,100)	(22,558)	(7,139)	(22,079)	(25,675)
Overseas	(15,041)	(15,636)	(8,194)	(2,528)	-		(584)	-	(429)	(210)	-	-	-	-
Non-Performing Loans	115,617	55,516	52,630	23,268	19,424	17,947	33,120	27,619	3,700	16,974	29,905	10,424	24,655	59,961
Domestic	95,786	34,574	42,878	18,241	19,424	17,205	33,120	27,619	3,271	16,974	29,905	10,424	24,655	59,961
Overseas	19,830	20,942	9,752	5,026	-	742	-	-	429	-	-	-	-	-
Operating Fixed Assets	32,702	25,706	24,608	28,595	22,084	14,835	8,567	10,251	11,795	3,035	2,836	4,009	6,155	3,515
Intangible Assets	-	-	-	-	-	-	-	-	-	-	1,438	-	26,222	-
Deferred Tax Asset	10,955	5,103	-	-	-	1,204	2,977	3,981	-	2,947	11,250	103	-	12,627
Other Assets	79,979	66,609	27,317	26,956	23,496	15,198	16,197	13,804	6,737	8,433	7,416	4,872	28,938	15,821
TOTAL ASSETS	**1,364,341**	**1,715,271**	**1,009,739**	**815,508**	**734,196**	**610,614**	**394,827**	**355,280**	**460,727**	**311,454**	**176,825**	**169,234**	**399,438**	**352,698**

Bills Payable	13,895	19,422	16,591	10,139	4,879	9,543	5,688	4,969	6,173	3,982	2,863	2,578	6,540	1,506
Borrowings from FIs	21,995	107,864	40,574	38,543	32,952	23,115	24,546	45,447	29,480	23,057	51,507	10,485	16,566	22,802
Deposits	1,101,139	1,401,230	827,848	632,330	608,412	525,526	335,241	271,134	386,161	247,644	104,896	140,580	296,557	306,561
Local Currency	926,271	1,067,231	578,774	596,311	547,905	439,405	295,921	244,449	339,427	212,562	97,896	128,852	232,165	300,588
Foreign Currency	174,868	333,999	249,074	36,020	60,506	86,121	39,320	26,685	46,734	35,081	7,000	11,728	64,392	5,973
Domestic	74,410	110,231												
Overseas	100,458	223,768												
Customer Deposits	955,396	1,379,795	811,759	620,406	602,846	488,971	327,735	262,395	372,029	243,300	98,769	140,054	295,553	298,293
Fixed	290,646	365,989	231,663	60,524	191,182	123,640	82,584	92,803	82,536	100,894	28,950	41,947	26,043	125,857
Savings	313,804	611,241	278,705	349,224	145,153	172,885	172,339	86,465	124,273	73,260	40,748	64,340	142,234	110,020
Current - remunerative	114,380	-	10,494	-	83,463	-	-	2,307	41,157	-	-	-	-	-
Current - non remunerative	236,566	402,564	290,897	210,658	183,047	192,445	72,812	80,820	124,062	69,146	29,072	33,767	127,276	62,417
FI Deposits	145,742	21,435	16,089	11,925	5,566	36,555	7,506	8,740	14,132	4,343	6,127	526	1,004	8,267
Remunerative	49,987	12,508	11,693	8,058	5,114	35,656	7,175	8,468	13,449	3,759	5,807	526	-	7,228
Non-Remunerative	95,755	8,927	4,396	3,867	451	899	332	272	683	585	320	0	1,004	1,040
Sub-Debt	-	2,633	665	-	4,242	9,991	3,994	3,495	6,486	-	-	-	2,500	-
Lease Liabilities	24	-	-	-	-	-	-	-	-	-	-	-	-	2
Other Liabilities	71,002	41,687	22,060	20,064	15,705	10,537	6,630	8,069	5,494	8,787	3,083	2,308	21,427	8,345
Deferred Tax Liabilities	-	-	1,087	4,201	1,808	-	-	-	1,651	-	-	-	119	-
TOTAL LIABILITIES	**1,208,055**	**1,572,837**	**908,825**	**705,277**	**667,998**	**578,713**	**376,099**	**333,114**	**435,445**	**283,470**	**162,349**	**155,951**	**343,709**	**339,217**
Paid-up Capital/ HO Balance	21,275	13,335	12,242	10,118	10,410	13,492	12,603	10,433	10,104	10,478	103,029	11,025	38,716	10,551
Reserves/Retained Profit	79,585	117,299	76,316	87,153	43,294	14,774	4,030	10,155	13,124	16,886	(88,086)	1,426	13,570	2,026
Revaluation Surplus	55,427	9,914	12,356	12,959	12,495	3,636	2,096	1,578	2,055	620	(467)	832	3,443	905
On Fixed Assets	21,728	9,528	10,193	11,288	3,472	3,130	1,837	1,760	1,723	-	-	584	3,379	891
On Investments	33,699	386	2,163	1,671	9,023	506	259	(181)	332	620	(467)	248	64	13
TOTAL EQUITY	**156,287**	**140,548**	**100,914**	**110,231**	**66,198**	**31,902**	**18,729**	**22,166**	**25,282**	**27,984**	**14,476**	**13,283**	**55,729**	**13,481**
MINORITY INTEREST	**-**	**1,886**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

PROFIT AND LOSS STATEMENT 2013

PKR Million	BIG FIVE BANK					MID-TIER BANKS								
	NBP	HBL	UBL	MCB	ABL	BAFL	AKBL	FABL	BAHL	HMBL	NIB	SNBL	SCB	BOP
Interest Revenue	99,028	120,223	72,846	65,064	54,222	43,961	27,961	27,790	37,256	24,628	13,170	13,601	30,377	24,228
Loans & Advances: Customers	71,326	47,850	33,412	24,990	27,443	23,739	14,364	19,685	13,206	10,817	7,336	8,163	16,101	13,407
Loans & Advances: FIs	472	261	899	-	-	274	100	45	239	83	-	-	109	19
Investments	24,322	69,419	38,441	39,233	25,445	18,519	13,134	7,562	23,633	12,851	5,010	5,117	13,626	10,006
Deposits with FIs	249	1,167	95	95	4	658	168	46	63	353	2	29	-	11
Interest on REPO	2,658	1,526	-	746	1,330	771	195	452	115	524	822	293	541	785
Interest Expense	60,823	65,207	34,910	27,196	32,552	27,066	19,363	16,945	22,994	15,577	9,883	8,751	12,048	20,209
Deposits	57,814	56,318	28,353	23,561	26,897	22,341	16,967	12,655	18,094	11,662	4,869	7,697	10,252	18,851
Subordinated Loan	-	475	992	-	237	-	645	436	930	159	368	11	-	-
Others	3,009	8,415	5,566	3,635	5,418	4,725	1,750	3,855	3,971	3,755	4,646	1,043	1,796	1,358
Net Interest Income	**38,205**	**55,016**	**37,936**	**37,868**	**21,670**	**16,895**	**8,597**	**10,845**	**14,261**	**9,052**	**3,286**	**4,850**	**18,329**	**4,019**
Non- Interest Income	**25,570**	**19,323**	**18,114**	**11,171**	**9,603**	**8,279**	**3,599**	**4,533**	**3,908**	**4,794**	**2,906**	**2,380**	**5,885**	**3,596**
Fees, comm. & Brokerage	11,598	8,292	10,049	6,741	3,079	2,800	1,169	2,237	1,894	2,232	1,271	1,123	3,027	776
Dividend Income	3,022	759	2,074	933	3,401	483	509	479	254	53	523	170	77	138
FX Income	3,797	2,299	2,156	917	632	1,536	559	949	675	865	543	458	2,912	147
Share of JV	-	1,785	-	-	-	-	-	7	-	-	-		-	-
Capital gain	3,886	2,301	2,771	2,130	1,244	1,597	821	287	539	1,339	494	453	743	1,388
Others	3,268	3,887	1,064	450	1,247	1,862	540	574	546	305	75	177	(874)	1,148
Total Revenue	**63,774**	**74,339**	**56,050**	**49,039**	**31,273**	**25,174**	**12,197**	**15,378**	**18,169**	**13,846**	**6,192**	**7,231**	**24,214**	**7,615**
Provisions & other charges	20,425	2,096	2,197	(1,959)	1,001	1,078	11,239	2,138	648	2,255	(739)	762	(660)	(586)
Diminuitions: investment	1,393	(225)	6	(7)	(87)	95	1,084	111	-	(2)	(105)	13	285	7
Bad Debt Provision	17,386	1,603	1,055	(2,829)	651	955	9,854	2,028	480	2,111	(751)	723	(1,455)	(673)
Bad Debt Direct Write-off	3	-	182	-	-	4	-	-	0	-	4	0	240	0
Others	1,642	718	955	876	437	24	301	(1)	168	145	113	27	271	80
Operating Expense	36,272	36,110	26,045	18,710	15,510	17,289	9,397	11,079	10,009	6,479	5,306	4,938	8,729	5,200
Staff cost	26,113	19,141	10,510	8,616	8,235	8,551	4,407	5,142	4,798	3,400	2,767	1,854	5,183	2,863
Others	10,159	16,969	15,536	10,094	7,275	8,738	4,990	5,938	5,211	3,079	2,539	3,084	3,546	2,337
Non-recurring Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of Def. Cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pre-Tax Profit	**7,078**	**36,133**	**27,807**	**32,288**	**14,761**	**6,807**	**(8,440)**	**2,161**	**7,513**	**5,112**	**1,625**	**1,530**	**16,144**	**3,001**
Taxation	1,578	13,106	9,193	10,793	118	2,131	(2,961)	311	2,358	1,586	384	494	5,616	1,063
Profit After Tax	**5,500**	**23,027**	**18,614**	**21,495**	**14,643**	**4,676**	**(5,479)**	**1,850**	**5,155**	**3,526**	**1,241**	**1,037**	**10,528**	**1,938**
Dividends Declared														

BALANCE SHEET 2009 - 2013										
	Big 5 Banks					Mid-Tier Banks				
PKR Million	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
12	322,040	341,217	410,894	510,495	486,547	125,266	154,288	192,607	219,322	245,971
Deposits with Banks	81,470	88,504	93,277	95,658	103,306	48,478	36,121	47,667	59,364	58,831
Lending to FIs	79,225	81,190	100,168	67,327	129,731	63,734	59,382	54,852	34,163	43,757
Investments	832,180	1,115,046	1,544,892	2,159,695	2,460,183	621,189	699,679	1,056,542	1,239,887	1,259,474
Gross Investments	837,402	1,124,308	1,559,693	2,137,502	2,426,360	624,880	709,318	1,070,065	1,243,749	1,272,891
Interest Bearing	764,779	1,047,875	1,426,557	1,991,323	2,279,664	582,385	666,391	1,010,434	1,191,048	1,223,017
Non-Interest Bearing	72,623	76,433	133,136	146,179	146,696	42,495	42,927	59,631	52,700	49,874
Reval Surplus/Deficit	7,624	8,060	6,401	43,808	56,384	(355)	(3,950)	(909)	10,466	1,500
Provision for Diminuition	(12,848)	(17,322)	(21,202)	(21,616)	(22,561)	(3,339)	(5,690)	(12,614)	(14,328)	(14,917)
Advances	1,774,591	1,777,886	1,779,774	2,029,539	2,085,178	879,895	1,007,755	1,108,495	1,241,451	1,377,900
Local Currency	1,644,842	1,625,452	1,619,821	1,839,235	1,794,560	869,552	990,856	1,137,726	1,282,908	1,409,380
Foreign Currency	242,770	283,519	308,270	351,096	467,472	65,548	100,557	106,824	109,118	128,179
Gross Loans	1,887,612	1,908,971	1,928,091	2,190,331	2,262,033	935,100	1,091,413	1,244,549	1,392,026	1,537,558
Domestic										
Overseas										
Bad Debt Provisions	(148,370)	(173,779)	(194,403)	(206,762)	(219,225)	(71,986)	(102,297)	(139,745)	(150,575)	(159,658)
Specific	(144,114)	(166,401)	(187,275)	(199,474)	(211,746)	(66,952)	(97,567)	(135,360)	(145,861)	(154,215)
General	(4,256)	(7,378)	(7,128)	(7,288)	(7,479)	(5,034)	(4,730)	(4,385)	(4,714)	(5,443)
Bad Debt Provisions	(148,370)	(173,779)	(194,403)	(206,762)	(219,225)	(71,986)	(102,297)	(139,745)	(150,575)	(159,658)
Domestic										
Overseas										
Non-Performing Loans	198,982	232,075	242,944	255,235	266,454	102,834	142,447	229,917	237,027	224,303
Domestic										
Overseas										
Operating Fixed Assets	94,302	101,774	109,698	119,623	133,695	52,563	59,275	64,087	64,211	64,998
Intangible Assets	-	-	-	-	-	53,969	29,100	28,467	27,994	27,660
Deferred Tax Asset	12,877	18,307	20,243	15,905	16,058	12,847	20,143	35,786	32,964	35,090
Other Assets	159,165	155,828	178,123	219,076	224,357	69,841	75,947	114,272	111,104	117,416
TOTAL ASSETS	**3,355,850**	**3,679,753**	**4,237,070**	**5,217,317**	**5,639,056**	**1,927,782**	**2,141,690**	**2,702,776**	**3,030,460**	**3,231,098**

Bills Payable	37,173	37,212	42,360	57,011	64,925	22,657	25,279	28,686	38,343	43,842
Borrowings from FIs	217,446	152,128	204,892	434,472	241,928	264,299	229,647	295,178	344,554	247,005
Deposits	2,598,731	2,932,829	3,364,783	4,009,900	4,570,958	1,360,547	1,616,950	2,053,602	2,307,489	2,614,299
Local Currency	2,119,712	2,445,946	2,773,413	3,297,636	3,716,492	1,171,405	1,385,063	1,817,236	2,036,760	2,291,265
Foreign Currency	479,019	486,883	591,370	712,264	854,466	189,142	231,887	236,365	270,729	323,034
Domestic										
Overseas										
Customer Deposits	2,487,719	2,810,537	3,182,124	3,800,502	4,370,202	1,306,909	1,550,581	1,986,627	2,225,145	2,527,099
Fixed	715,060	772,291	912,614	1,058,710	1,140,005	483,124	534,260	705,194	666,116	705,254
Savings	947,775	1,084,128	1,164,191	1,441,765	1,698,128	444,604	534,976	692,862	861,732	986,563
Current - remunerative	126,767	130,538	146,134	183,792	208,337	21,274	29,227	27,252	30,721	43,464
Current - non remunerative	698,117	823,580	959,185	1,116,235	1,323,732	357,907	452,118	561,319	666,576	791,817
FI Deposits	111,012	122,290	182,660	209,398	200,756	53,642	66,369	67,309	82,344	87,200
Remunerative	57,461	54,477	90,075	107,437	87,360	52,069	64,348	63,782	78,308	82,066
Non-Remunerative	53,551	67,813	92,585	101,961	113,396	1,573	2,021	3,527	4,036	5,133
Sub-Debt	21,699	21,762	21,846	20,250	7,541	26,130	29,325	31,516	30,588	26,467
Lease Liabilities	42	107	76	30	24	-	-	8	4	2
Other Liabilities	113,646	122,439	146,982	165,123	170,518	73,031	74,788	95,836	91,784	74,680
Deferred Tax Liabilities	3,199	4,934	6,488	11,074	7,097	1,330	845	1,268	2,005	1,770
TOTAL LIABILITIES	**2,991,936**	**3,271,411**	**3,787,428**	**4,697,860**	**5,062,992**	**1,747,994**	**1,976,834**	**2,506,093**	**2,814,767**	**3,008,066**
Paid-up Capital/ HO Balance	45,022	51,139	57,046	61,527	67,380	122,457	128,458	204,131	208,533	220,429
Reserves/Retained Profit	263,499	299,993	336,887	373,557	403,647	46,458	28,536	(20,215)	(13,544)	(12,095)
Revaluation Surplus	54,250	55,996	54,472	83,147	103,151	10,873	7,862	12,767	20,705	14,698
On Fixed Assets	47,589	48,431	48,817	49,751	56,209	10,701	10,407	13,336	13,546	13,304
On Investments	6,661	7,565	5,655	33,396	46,942	172	(2,545)	(568)	7,159	1,393
TOTAL EQUITY	**362,771**	**407,128**	**448,405**	**518,230**	**574,178**	**179,788**	**164,856**	**196,683**	**215,693**	**223,032**
MINORITY INTEREST	**1,143**	**1,212**	**1,236**	**1,227**	**1,886**	**-**	**-**	**-**	**-**	**-**

PROFIT AND LOSS SATEMENT 2009 - 2013										
PKR Million	Big 5 Banks					Mid-Tier Banks				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Interest Revenue	307,621	328,887	384,317	408,231	411,382	172,938	190,114	249,456	260,870	242,972
Loans & Advances: Customers	220,724	215,909	223,108	221,693	205,021	115,131	114,912	137,034	134,588	126,817
Loans & Advances: FIs	2,136	2,941	2,819	2,528	1,632	1,001	1,348	1,970	701	868
Investments	73,413	99,386	148,481	176,913	196,860	51,179	68,172	105,228	120,881	109,459
Deposits with FIs	2,817	1,561	1,523	1,714	1,611	2,830	2,944	984	1,099	1,330
Interest on REPO	8,531	9,090	8,385	5,383	6,259	2,798	2,738	4,240	3,600	4,498
Interest Expense	140,324	144,992	171,987	209,020	220,688	107,814	120,240	163,728	170,327	152,837
Deposits	122,022	125,307	147,623	177,356	192,942	86,986	91,976	128,413	131,658	123,388
Subordinated Loan	2,226	2,320	2,333	2,238	1,704	1,492	2,355	3,631	3,452	2,549
Others	16,075	17,537	22,031	29,426	26,042	19,336	24,600	31,685	35,217	26,900
Net Interest Income	**167,297**	**183,895**	**212,330**	**199,211**	**190,694**	**65,124**	**69,874**	**85,728**	**90,543**	**90,135**
Non- Interest Income	**53,457**	**52,422**	**61,900**	**79,888**	**83,781**	**25,822**	**27,215**	**32,493**	**39,287**	**39,881**
Fees, comm. & Brokerage	26,211	28,023	30,492	34,159	39,759	11,317	11,690	13,499	15,272	16,530
Dividend Income	4,625	3,695	6,653	16,412	10,189	2,004	1,910	3,755	3,717	2,684
FX Income	7,258	8,105	10,531	9,555	9,800	6,254	6,937	8,708	6,804	8,645
Share of JV	488	714	1,081	1,690	1,785	-	-	-	(5)	7
Capital gain	6,907	4,800	4,972	7,815	12,332	3,203	3,244	2,187	7,958	7,661
Others	7,968	7,085	8,171	10,256	9,915	3,044	3,435	4,343	5,542	4,354
Total Revenue	**220,754**	**236,317**	**274,230**	**279,099**	**274,475**	**90,946**	**97,089**	**118,221**	**129,830**	**130,016**
Provisions & other charges	48,891	36,746	34,996	26,721	23,760	25,685	31,058	19,475	15,908	16,135
Diminuitions: investment	4,435	4,845	4,792	132	1,080	2,140	3,288	4,085	3,078	1,487
Bad Debt Provision	39,214	27,342	24,711	22,128	17,867	20,029	24,269	12,657	10,775	13,270
Bad Debt Direct Write-off	1,528	1,049	369	285	185	2,924	1,825	541	345	249
Others	3,714	3,510	5,124	4,176	4,628	592	1,676	2,192	1,710	1,129
Operating Expense	81,456	91,778	108,087	121,109	132,647	50,360	59,799	71,084	77,260	78,426
Staff cost	44,967	50,535	61,017	68,228	72,615	20,377	22,417	32,158	35,477	38,964
Others	36,489	41,243	47,070	52,881	60,032	29,983	37,382	38,926	41,783	39,462
Non-recurring Items	-	-	-	-	-	-	-	-	-	-
Amortization of Def. Cost	-	-	-	-	-	-	-	-	-	-
Pre-Tax Profit	**90,407**	**107,793**	**131,147**	**131,269**	**118,068**	**14,901**	**6,232**	**27,662**	**36,662**	**35,454**
Taxation	27,634	36,937	46,145	43,331	34,788	4,519	3,092	8,903	11,875	10,983
Profit After Tax	**62,773**	**70,856**	**85,002**	**87,938**	**83,280**	**10,382**	**3,140**	**18,759**	**24,787**	**24,472**

Associate Chartered Bankers*
as of January 2014

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
Faisal Nazim

Allied Bank Limited
Ahmad Ali
Amna Shafiq
Ghulam Mustafa Shami
Hamza Lodhi
Hasan Sajid
Imran Ali Arshad
Kamran Mueen Malik
Mohammad Naeem Ansari
Muhammad Adeel Malik
Muhammad Kamran Zafar
Muhammad Nasir
Muhammad Shahid Yasin
Numan Ali Akhtar
Rashid Ali Shah
Romiya Mansoor Ali
Syed Khurram Ali Raza Shah
Usman Majeed
Yasir Hussain Khan

Askari Bank Limited
Rana Usman Fakhar
Syed Azeem Rashid
Zulfiqar Ali
Zulfiqar Ali

Bank Alfalah Limited
Sadia Mukhtar
Furqan Ali
Goher Afroze Rana
Khurram Sattar
Mirza Ali Huzaifa Sultan
Muhammad Abbas
Muhammad Ali Noor
Syed Ali Ravish Jafri

Bank Al Habib Limited
Abbas Ali
Abdul Wajid
Farrukh Azeem
Kashif Wahid
Masood Mubarak Rajput
Mohammed Ali Jamot
Mubbashir Shaukat
Muhammad Abbas
Muhammad Asghar Ali
Muhammad Farhan Khokhar
Muhammad Nadir Ilyas
Onkar Lal
Sarfraz Hassan Khan
Syed Fahad Hussain
Syed Hussnain Ali Shah
Syed Mohammad Hasan Zaidi
Syed Rizwan Haider Abidi
Syed Shahrukh Shabir
Syed Taqi Haider
Tahir Majeed Hussain
Waqas Ahmed

Bank Islami Pakistan Limited
Omer Almas

Citi Bank N.A.
Jibran Ahmed Bugvi

Dubai Islamic Bank Pakistan Ltd.
Jawed

Faysal Bank Limited
Mahnaz Begum
Muhammad Bilal

First Women Bank Limited
Saima Kanwal

Habib Bank Limited
Aizad Waheed
Ejaz Wali Khan
Farzana Nadir
Muhammad Adil Siddiqui
Muhammad Kashif Anwar
Sumbal Saleem Shahdani
Syed Subhan Shah

Habib Metropolitan Bank Limited
Arsalan Mansoor
Hamza Imam Ansari
Muhammad Rizwan Rafique
Muzaffar Mehdi
Syed Faran Ali

HSBC Bank Middle East Limited
Saqib Mahmood Siddiqui

MCB Bank Limited
Abid Hussain
Adnan Arshad
Ahmad Razi
Aisha Nasir
Amina Ashraf
Bint Ul Islam Fatima Tu Zahra
Darshan Kumar
Hammad Jalil
Huma Shabbir
Ikram Ullah
Imtiaz Hussain
Jaffar Ali Qureshi
Kaleem Ahmed
Kanwer Ahmad Ali
Kashif Mehmood
Mubasher Javed
M Adeel Aleem Siddiqui
Muhammad Ali Mirza
Muhammad Arslan
Muhammad Imran Nasir
Muhammad Junaid
Muhammad Junaid Qazi
M Shahzad Farooq Anwar
Naseem Akhtar
Neelum Javed
Noor-Ul-Ain Nawaz
Raja Zeeshan Zafar
Rajesh Punjwani
Rizwan Ahmed Khan
Rumla Nasir
Saima Kausar
Sana Saeed
Shaharyar Qayum
Shoaib Sadiq
Syed Arsalan Haider
Syed Fahad Ahsan
Syed Haris Ul Islam
Syed Hasan Raza
Syed M Jawwad-Ul-Haq
Syed M Umair Azhar Zaidi
Syed Qamar Abbas
Tooba Ameen
Usman Khan

Continued on next page>>>

* Eligible

Associate Chartered Bankers*
as of January 2014

Wajiha Akbar
Wasim Ghulam Rasool
Zahid Rasheed
Zohaib Tariq Khan
Zulfiqar Ali
Zulfiqar Ali

Meezan Bank Limited
Hafiz Muhammad Azeem Malik
Sehrish Khan
Sohaib Mehmood
Syed Shabib Ahsan

National Bank Of Pakistan
Aamir Bin Nasir
Abrar Ali Shah
Aftab Ahmed Shaikh
Ahsan Arshad
Ambreen Farooq
Ammad Siddique
Anis Ahmed
Ayesha Zahoor
Danish Anwar
Ghazala Quraishy
Ghazanfar Ali Zardari
Hina Batool
Kanwal Amir
Mian Muhammad Faisal
Mohammad Bilal Mirza
Muhammad Arsalan Farooq
Muhammad Kamran Sheikh
Muhammad Noman
Muhammad Umar
Muhammad Usman Ghaffar
Muhammad Yasir
Muhammad Yasir Khan
Muhammad Zubair
Muqadus Raza
Nagina Kanwal
Nasir Ahmed Nomani
Noman Azim
Noor Hassan Shaikh
Rehmat Ullah
Rohma Khan
Saima Akram
Sajjad Ahmad
Sakina Nazir
Sarosh Javed
Shahzad Jan
Shaukat Ali
Sohail Ahmed Khan
Sunain Qamar
Tehseen Ashfaq
Usama Ather
Waleed Bin Khalid
Zill-Huma
Zulfiqar Jadavjee

NIB Bank Limited
Asad Abbas

Other Professionals
Asiya Naseem
Ghulam Mustafa
Maria Khan
Muhammad Talal
Sunil Shahzad
Wasim Asghar

Soneri Bank Limited
Noor Ali
Farrukh Saeed
Mohsin Ali
Muhammad Iftikhar
Muhammad Mustafeez Arbani
Muhammad Yahya Abbasi
Shireen Allauddin
Sidra Arshad
Suleman Merchant

Standard Chartered Bank
Irfan Ahmed
Sana Akram Tufail
Shah Muhammad Tahir Abbasi

State Bank Of Pakistan
Anila Komal
Govinda Maheshwari
Hina Yasmin
Irshad Ali
Khushboo Zahra Jafri
Muhammad Faheem Arshad
Syed Nabeel Hasan
Umar Shahzad Aslam

Summit Bank
Zia Murtaza

The Bank Of Khyber
Aatif Ali
Asad Bilal
Farah Akram Khan
Farhan Ahmed
Muddassar Majeed

The Bank Of Punjab
Saaim Arshad

The Punjab Provincial Co-Operative Bank Limited
Aasma Noureen
Muhammad Faisal
Shahzad Hussain

United Bank Limited
Abdullah Ilyas
Aneel Ahmed Khan
Bushra Zia
Imran Mustafa
Kashif Shahzad
Mehreen Gillani
Muhammad Khan
Muhammad Moiz Khan
Muhammad Rafique
Mushkbar Misbah
Naresh Kumar
Rabia Kamal
Sonia Aqeel
Syed Kamil Mustafa Zaidi
Zahid Ali

Zarai Taraqiati Bank Limited
Qamar Shahzad

DEBT
IT'S BOTH good & bad

There's no need to fear debt, as VICTORIA CHICK, Emeritus Professor of Economics at University College London, explained at the Transforming Finance Conference in London.

By: Victoria Chick

Mainstream discussion pits austerity against increasing debt: if someone says that the Government should spend on capital projects to help get us out of recession, John Humphrys or one of his clones will adopt a tone of astonishment and trounce the proposer of this scandalous doctrine with: "Take on more debt? How can you solve the problem of too much debt by adding to it?" The proposer can do little but retreat into silence and lick his wounds, because to explain the fallacy behind this response needs more time to explain than is available on a news programme.

The austerity/profligacy dichotomy, which we have been drip-fed, is the wrong way to look at debt. There is another dichotomy: good and bad debt, or, in Keynes's terms, deadweight debt and productive debt. There is nothing wrong with debt as such: whether it is good or bad depends on what it finances.

Good debt pays for itself. Perhaps the best debt is created by loans for productive purposes: capital projects, including the more. difficult-to-measure human capital. When these are productive, they will earn a profit sufficient to pay off the debt and the economy ends up with improved capacity.

Bad debt is generated by loans for unproductive purposes: purchases of existing assets, which inflates their prices, or consumption, which only brings consumption forward in time. Some of the latter is necessary (house purchase and occasional large consumption items), but this debt does nothing to generate income and should be kept within moderate bounds. Really bad debt finances purely financial transactions, which generate no wealth or income except to those who act fastest, at the expense of those who are slower.

When the Government borrows to invest productively, not only does the investment itself generate income to pay off the debt, but the expenditure will stimulate the rest of the economy to expand. This secondary effect is known as the multiplier. Tax revenue will rise and unemployment benefits decrease with the economic expansion.

The multiplier effect does rely on the private sector responding to a government stimulus. The trouble is that, after nearly 70 years of peace, the expected rate of return on many private-sector investment projects will have declined, except in areas of rapid technical change. Yet there are many things that need doing, not least re-tooling our infrastructure and processes toward a greener future. We know, while apparently the Government does not, that we cannot return to "Business as usual".

> **"THERE IS NOTHING** WRONG WITH DEBT AS SUCH: WETHER IT IS GOOD OR BAD DEPENDS ON WHAT IT FINANCES."

If there is a shortage of private-sector profitable opportunities, which are also genuinely socially useful, it follows that there are only two routes to a viable future: either people reject the corporate solution in favour of local initiatives; or the Government, which can in principle take a long view and distinguish mere profitability from social usefulness, must take the lead. But, this shows no taste for doing: it is as saturated as the rest of us in the neoliberal rhetoric that would leave all economic decisions, including banking, to the private sector; and despite the private sector's recent evident and miserable failures, it appears actually to believe it.

Should it decide to take on the mantle of the courageous State[1], it must face the contrast between good and bad debt. To spend wisely means thinking through what sort of economy – and indeed ecology and society – we want and obtaining support for this vision. If it does that, good debt – productive debt – is nothing to fear.

[1] Richard Murphy, The Courageous State, Searching Finance, 2011.

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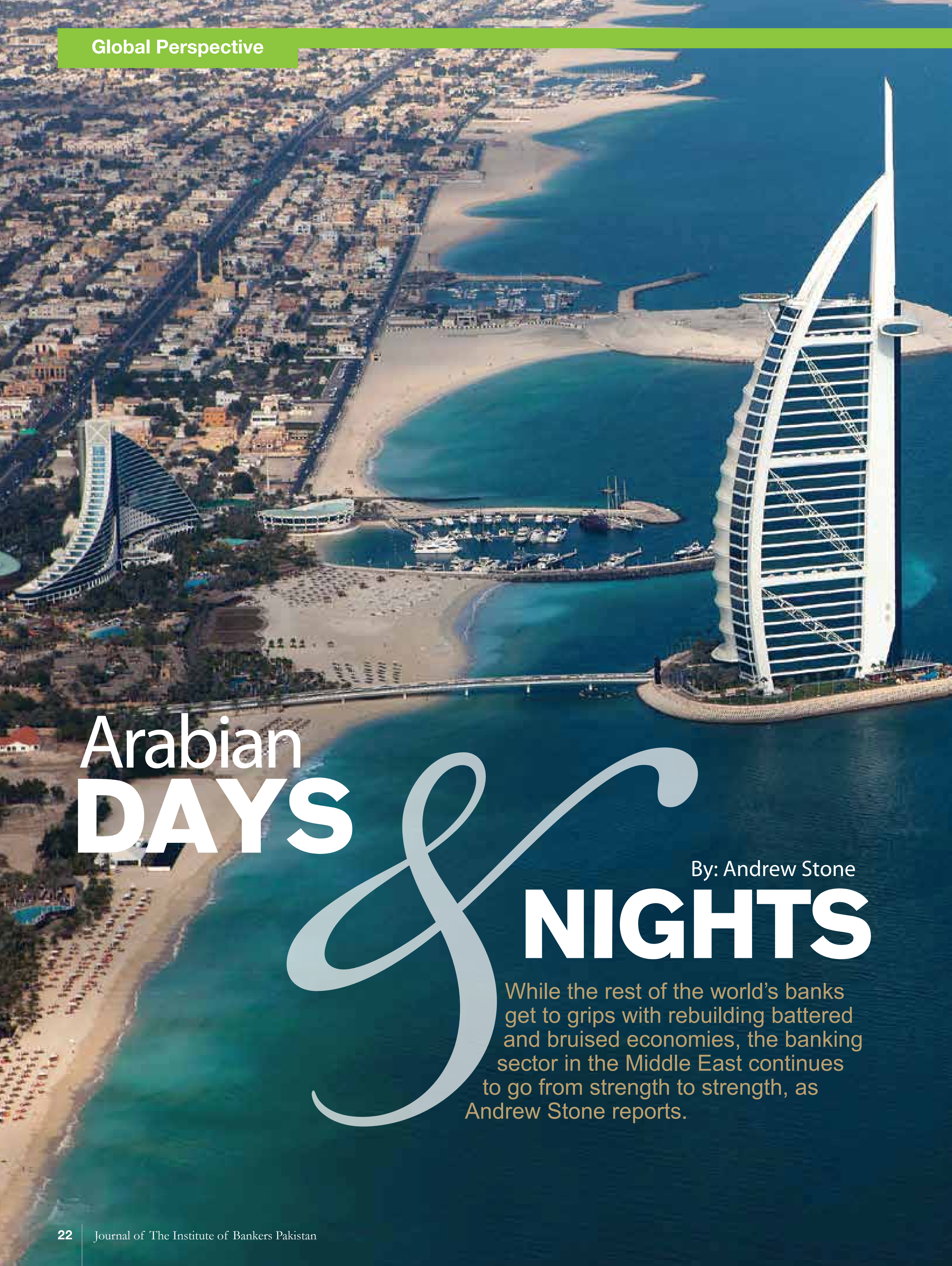


Arabian DAYS & NIGHTS

By: Andrew Stone

While the rest of the world's banks get to grips with rebuilding battered and bruised economies, the banking sector in the Middle East continues to go from strength to strength, as Andrew Stone reports.

In contrast to the sluggish growth and austerity endured by many national and regional economies lately, the middle east has continued to power forward, offering tempting opportunities to businesses and financiers alike. With a young population and great oil wealth, it has grown steadily each year and continues to pursue its grand plans to invest on a massive scale in infrastructure.

The bulk of the economic growth, activity and investment, as well as finance opportunities, lie with just six countries – the members of the Gulf Cooperation Council (GCC), made up of Bahrain, Kuwait, Oman, Qatar, Saudia Arabia and the United Arab Emirates (UAE), says Graham Hayward, Middle East Financial services leader – Partner at PWC in Bahrain. "We see three of them represent 80 per cent of the market – the UAE, Qatar and Saudia Arabia."

GDP among the GCC 6 is growing at anywhere between 4-8 per cent, and its members have generally low debt to GDP ratios and large currency reserves (Saudia Arabia has approaching $1tn of reserves), all pegging themselves directly or indirectly to the US dollar.

The demographics are strong in a region where the average age is 25, although the relatively small population base of nationals is boosted significantly by expatriate workers, especially in Qatar, Kuwait and the UAE. Saudia Arabia is by far the most populous of the GCC 6, with around 27 million people. "Saudia Arabia is key to many things in the region. People say that if you are not in Saudi you are not in the middle east," says Hayward. "It is clearly the engine in terms of population for the region."

Trade is growing within the region but does not yet flow as freely as in the EU, although significantly the GCC is moving towards a comparable economic union over time, including proposals for a monetary and currency union. The region is also continuing to position itself as the hub for growing trade by air and sea between East and West, but also a South-South trade linking China and Asia with Africa.

The big story of the coming years is the vast build out and financing of hard infrastructure such as ports, airports, roads and railways as well as Mining, oil and gas, along with hospitals and schools, which is well underway. massive multiple projects planned for the region in transport, housing, commerce and mining to 2020 present a $4.3tn opportunity across the Middle East/ North Africa region for businesses and the investors seeking to fund this ambitious build out.

Dubai offers one of the most visual and high-profile examples of such development but extensive projects are going on throughout the region. In Riyadh, for example, a new financial district to rival Canary Wharf in scale is under construction. The banking sector in the region is working hard to fulfill these vast financing requirements – a challenge as the size of the banking sector relative to the size of the economy is relatively small across the GCC, perhaps only about 20 per cent in terms of the size of the economy compared to more like 35 per cent in the US and Europe. There is, however, a solid regulatory regime with Saudia Arabia, a member of the G20 financial stability board.

The many large infrastructure projects in the region are being funded locally and internationally via government bonds, PPP-type financing and sukuk bond issuance.

The latter is one element in the rapidly evolving and growing Islamic banking sector (see panel, right). "Islamic finance is relatively undersized and has huge opportunities for growth inside the region and beyond it. Legislation has only really been brought in to some of the territories recently," says Hayward.

The large family businesses that dominate trade in the region are the other big area of opportunity for local banks. It is these entities that foreign businesses seeking to trade within the region will typically need to sponsor and form local joint ventures with.

"Dubai offers one of the most visual and high-profile examples of ambitious development."

Typically, these family firms are large, diversified businesses owned by perhaps 200-300 ultra-high-net-worth families that have been around as long as their kingdoms, many with assets of $1bn or greater and through which 80 per cent of the non-oil business goes, says Hayward.

"Although they are like conglomerates they are not structured that way, although many are in the process of changing to more commercial structures. They have lots of cash and little debt and are great engines for the generation of profitability."

Hand in hand with family businesses, is private banking for high-net-worth individuals. Qatar has the highest proportion of millionaire households in the world (14.3 per cent). Kuwait, Bahrain, the UAE and Oman are also all in the top 11.

Private banks operating in the Middle East are increasingly fighting to capture a slice of this business. According to UAE-based research house insight discovery, there about 65 private banks in the GCC excluding saudiarabia, between them employing around 700 private bankers. Dubai is the location for the vast bulk of this business (as much as 90 per cent).

Banking services generally are evolving rapidly thanks to a young, tech-savvy population of smartphone users. Most banking facilities are online already. Women are increasingly enjoying greater financial independence and will typically have their own accounts, although at a family business level, wealth is still generally managed along traditional patriarchal lines. In some countries there are women-only bank branches.

Some services, well established in the west, are relatively novel in some parts of the middle east, such as direct debits and iban, for example, and in some territories the cheque book still holds sway. As well as modernising its basic banking services, the region has also taken a series of steps to protect and reassure foreign investors, earning the uae and qatar emerging market status last year from MSCI.

ISLAMIC FINANCE IN THE MIDDLE EAST

Islamic finance is well established in the GCC region generally, says MadhukarShenoy, Middle East Financial Services Regulatory Leader – Partner at PwC in Bahrain. The sector offers a broad and deep range of Islamic finance products covering all forms of banking including retail, commercial, private equity, investment banking and infrastructure finance, as well as wealth and asset management and insurance.

"Bahrain is a notable centre for Islamic finance with a long history. It did a lot to build the regulatory framework which has been an example across the region. Saudi Arabia has a prominent role in making sure it has Sharia-compliant products to meet any financial needs."

The size of the sector represents around 20 per cent of the size of the total financial services sector but it could be deemed to be more depending on how it is defined, says Shenoy. "Saudi Arabia for example does not really make the distinction as all products are supposed to be Sharia-compliant."

The growth of the sector was hit by the financial crisis which slowed growth rates across the region, says Shenoy. "However, we expect that once the region grows out of any legacy issues from crisis-related problems, we should see substantive growth."

Finance and construction and related products in particular were hit following the financial crisis but are expected to come back strongly, he says. "Real estate has been number one as it is clearly a Sharia-compliant class of asset."

The region clearly has an opportunity to establish a strong lead in the sector which it can exploit in other markets, he adds. "Islamic finance is clearly a growing segment

> *"The large family businesses that dominate trade in the region are one big area of opportunity for local banks."*

The opportunities for banking to grow in the region are extensive. "There are big opportunities across the board in the region," says hayward. "The challenge for incomers is that there is no process of open licensing of banking institutions in many regions. You would not get a licence to set up a regional bank."

And the region also faces challenges. Perhaps the most significant is its reliance on oil to drive its economies, which would be hit in the event of a drop in oil prices. "The IMF is predicting $100 a barrel but some are raising questions about the global impact of shale oil or the likelihood of what would happen if some of the less stable countries including embargoed ones in the region start to pump oil into global markets. The oil price story is going to be interesting over the next four to five-year period," says Hayward.

Geopolitics are also a factor. The GCC has generally enjoyed stability but the spectre of wider geopolitical crises, notably from israel, syria and iran is always there, threatening to upset the regional status quo.

Despite such caveats, however, the outlook for the GCC remains strong, says Hayward. "We can see good growth over the next four to five years. A closer GCC union in particular will bring harmonisation of investment operations and new opportunities."

Andrew Stone is a business journalist

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

PRACTICAL PROBLEMS ON COMMERCIAL BANKING AND THEIR Solutions

By: Dr. Sabir Ali Jaffery

Q.1 A well known business man approaches the bank to open a current account but desires that no opinion about his account should be provided to any person without his written consent in advance. How should the bank take his desire? What shall the bank do if such instructions are received from an existing accountholder?

Ans: It is an obligation of a banker under the contractual relationship between himself and his customer that the banker will not divulge to third persons the state of the customer's account except under the circumstances spelled out in the famous Tournier case.

By accepting the instructions of the would-be accountholder, the bank would undertake not to make a disclosure without his explicit consent. In this situation, the bank would remain exposed to the risk of the breach of contract owing to oversight because it is a routine practice to give status opinion on request from another bank, and the banker may not go through the file to see whether this particular customer is one who had instructed otherwise.

Moreover, it is advisable to persuade a customer that it will not be in his own interest to withhold the opinion. The refusal may be more damaging than a cautious opinion. In case the prospective new customer is adamant, prudent banking practices demand that opening of his account is refused. There is more risk in it than it is worth.

If the instruction is given by an existing customer, the banker would decide whether the risk of unauthorized disclosure must be accepted to retain the customer or whether it is preferable to close the account.

Q.2 As compared to an individual, why a banker is considered to be a better trustee? What guide lines would you suggest for a banker-trustee to operate risk free?

Ans: Following are the considerations owing to which a banking company is considered to be a better choice for appointment as trustee.

(i) It lasts long and has continuous existence.

(ii) It tends to operate with check and balances under organiza tional discipline.

(iii) It is supposed to act with professional excellence under experts' advices; and

(iv) It may have to manage several trusts at a time which tends to equip it with special knowedge of trust operation, and, at the same time, makes the opertion cost effective.

The banker must act strictly according to the provisions of the trust deed as any deviation, divergence, distortion, or dereliction there from would render him liable for breach of trust, and he may be required to make good any loss the beneficiary thereby sustains.

A banker-trustee has to abide by the following order of preference while charging the assets of the trust.

FIRST, funeral expenses.
NEXT, expenses incurred on taking out probate.
NEXT, wages of employees for three months preceding the death
NEXT, debts according to priorities by charge; and
LAST, legacies.

The first thing that a banker-trustee ought to do is to collect full information about the property to be administered including encumbrances, if any.

A trustee must follow the trust deed in letter and spirit. Any violation thereof would render him liable for breach of trust and the resultant damages unless the beneficiary had fraudulently induced the trustee to commit the breach. In case of any doubt or lack of clear understanding of any provision of the trust deed, clarification may be sought from the competent court and meticulously followed. It should be borne in mind that in the event of any dispute with regards to the administration of a trust, the courts are generally inclined to presume against the trustees.

If it is not possible for any reason to follow the trust deed, the banker-trustee should act on the direction of the beneficiaries. Alternatively, court's orders should be sought and carried out, particularly if the beneficiaries are minors.

Unless otherwise expressly authorized by the deed, trust moneys must not be invested in the securities other than those listed under Sec. 20 of the Trust Act.

Trust money must in no case be mixed up with any other kind of money. If a trustee is found guilty of converting, appropriating, or applying any part of the trust property to his own benefit, he is liable to be convicted for fraud, misappropriation or misapplication.

Q. 3 Evaluate the utility of credit cards in the context of socio-economic conditions of Pakistan?

Ans: As finally established in Re Charge Card Service 1988, the use of credit cards involves three parties and three transactions between them, namely: Card Holder, Supplier or Retailer, and Credit Card Company.

Advantages and disadvantages of credit cards to the concerned parties with special reference to conditions in Pakistan may be summarized as under:

CARD HOLDERS

Following is the utility of credit cards visa-vis cardholders:

1. Less need to carry cash while shopping. This ensures increased security, much desired in the law and order situation prevailing in Pakistan.

2. A large number of scattered purchases made during the month may be paid for by issuing one consolidated cheque in favour of the card company, thereby saving on excise duty per cheque leaf.

3. Availability of free credit for 3 to 4 weeks.

4. Rolling credit facility if the cardholder chooses to pay in installments.

But the question is how many Pakistanis are capable to avail these facilities by making use of credit cards. A reply to this question alone shall determine whether or not we are adequately equipped to switch over to such a sophisticated technique of transfer of funds.

While moving to cash-less society, an earlier step is the increasing use of cheque currency; the credit card stage comes much later. Have we reached the stage where cheques are more in use than currency notes? Obviously, not. On the contrary, majority of our population, which resides in villages, is still averse to banking system, probably owing to chronic illiteracy and below-subsistence level living conditions.

Illiterate urban population, which outnumbers their literate counterpart, also does not behave differently. It is indeed a small segment of literate civil population which alone is left to court with cheques and other commercial papers.

The cardholder's liability to the supplier is fully discharged once the sale memo has been signed by him. In the event of the credit card company becoming insolvent, the supplier has rights of unpaid seller against the company, but has no recourse against the customer. This internationally established practice needs to be given adequate legal cover in Pakistan.

Use of credit cards, on the one hand, creates indebtedness on account of the cardholders, which may not be commensurate with their repaying capacity. On the other hand, in the form of additional credit utilized by the cardholders, it adds to the money supply in the country's money market, and raises the inflation level proportionately. However, it also tends to increase the demand for goods and services which, in turn, should increase production and reduce unemployment. This is indeed a good sign. But, unfortunately, the use of cards is restricted to the purchase of consumer goods, which may raise the standard of living with a simultaneous rise in the cost of living, but without corresponding increase in per capita income and the overall economic well being of the nation, as is associated with the increased production of capital goods.

Those who pay the bill before due date and therefore continuously enjoy free credit do not suit the card companies, whereas payment in installments does not suit the card holders as, in that case, the rate of interest is much higher than the lending rates of commercial banks.

Common social evils, such as, tax evasion, black-marketing, smuggling, drug trafficking etc. are strong deterrents to any type of record-keeping. Until these anti-social activities are curbed, the dream of seeing credit cards in extensive use shall not materialize. Conversely, however, their extensive use tends to discourage illegal financial activities.

SUPPLIERS or RETAILERS

The benefits of the use of credit cards to the suppliers of goods and services may be as under.

(i) Greater sales.

(ii) Less cash handling and there fore increased security

(iii) Credit vouchers which a retailer pays into his account are treated as cash; thus increased liquidity. It also cuts on the time usually taken in collecting of cheques.

(iv) Payment is guaranteed once the sale memo is signed by the cardholder. Payment by cheque lacks this quality.

The only disadvantage to a retailer is that he is required to pay to the credit card company a percentage of his sale income from card transactions. This is checked by dual pricing. i.e. charging of different prices on cash and credit card sales. This again is to the utter disadvantage of the cardholder.

CREDIT CARD COMPANIES

According to a conservative estimate, more than 50% of cardholders tend to pay their bills in full within the prescribed time limit to avail the free credit facility. While, in any case, the issuers have to provide funds for free credit for up to approximately 55 days. Card companies cannot afford to have too many these 'free riders' on their customers' list. Instead, they want them to take extended credit, since this is where they make their profits.

Yet another major problem for card companies throughout the world is the large stuck-up debts with little prospects of recovery.

Q.4 Discuss the salient features of:

(i) Standby Credit; and

(ii) Back-to-Back Credit

Ans: (i) Standby Credit

Under U.S. banking laws, the business of banking is distinguished from the business of suretyship. Hence, national banks in the USA are prohibited from issuing guarantees and performance bonds. In order, therefore, to meet the guarantee requirements, the USA banks have adapted the L/C instrument called Standby Letter of Credit.

Since this type of Letter of Credit was being increasingly used in growing number of countries, it was felt necessary to give it recognition in UCP 400.

A standby credit, as against the commercial credit, compensates the beneficiary for non-performance of any obligation by the applicant. It may only call for the beneficiary's statement that the applicant has defaulted in his obligation.

(ii) Back-to-Back Credit

A back-to-back credit entails two separate documentary credits, namely:

1. First, or Prime, or Master Credit

2. Back-to-Back Credit

These credits apply to transactions in which ultimate buyer and supplier deal through a middleman. Only the middleman and his banker need to know of the back-to-back aspect of the credit; other parties remaining unconcerned.

The back-to-back credit must call for the same documents as required under the Prime L.C., except for the following.

What may be reduced or curtailed:

- Unit price
- Amount
- Shipment period
- Period of validity
- Period within which documents must be presented from the date of shipment.

What may be increased:

- Amount of insurance to provide cover mentioned in the Master L.C., or as otherwise prescribed under the UCP

What must be substituted:

- The name of the first beneficiary for that of the applicant of the Master L.C.

Some more features of back-to-back credit are as under:

- Its terms must never be more preferential than the terms of the prime credit.

- Its expiry date must permit time for documents to be presented under prime L.C.

- The prime credit is retained by the bank with the letter of beneficiary requesting for opening of the back-to-back credit, and assigning his rights as beneficiary to the bank.

- The bank can minimize the risk of strikes, mail delays, insolvency of the middleman, etc. by taking in advance the documents neces sary for substitution, where practicable.

Q. 5. What are compliant and discrepant documents? How discrepant documents are handled by the negotiating bank?

Ans: If the documents conform to the terms of credit, they are compliant. If there is any irregularity, whether major or minor, they are discrepant.

Discrepant documents may be handled by the negotiating bank in one of the following ways:

- Exporter may be asked to rectify the irregularity and resubmit.

- Instruction may be sought from the issuing bank.

- Documents may be accepted on collection basis. In this situation, the issuing and the confirming banks are absolved of their obligations.

- Exporter may be asked to furnish indemnity from his banker on receipt of which payment may be released under reserve.

- For its valued customers, the bank may negotiate the discrep ant documents and pay under reserve.

Under the last two options, if the importer declines to accept discrepant documents, the exporter shall refund the amount along with the interest accrued till the date of refund.

Q. 6. Discuss the salient features of negotiation and assignment. How the two are different from one another?

Ans: A negotiable instrument is a physical embodiment of rights. These rights can be transferred like those in the ordinary chose-in-action, i.e. "things". The difference, however, is that the latter can be transferred by assignment under the ordinary law relating to the transfer of goods, while the former are transferable by negotiation.

In negotiation, consideration is presumed to have been given unless proved otherwise. In assignment consideration must be proved. Hence, it is a good defense to a suit based on a negotiable instrument that it was not for consideration. However, the onus of proving the want of consideration is on the defendant.

An endorsee of a negotiable instrument, in certain circumstances (when he becomes a holder in due course), is entitled to claim better rights than what the endorser himself had, while an assignee cannot have better rights than the rights of the assignor.

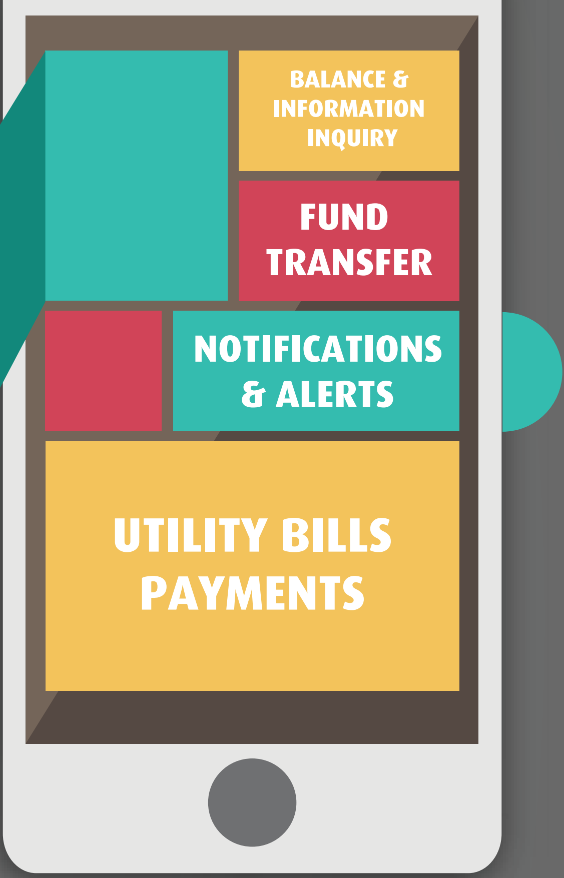
In the case of negotiable instruments, notice of transfer is not necessary; in case of assignment of a chose-in-action, notice of assignment must be given.

The endorsement of a negotiable instrument followed by delivery, transfers to the endorsee the property in the instrument with the rights of further negotiation.

By: Aijaz Ahmed Shaikh

what influences Mobile banking acceptance?

A Global Perceptive



MOBILE BANKING (MB) HAS EMERGED AS THE MOST PREFERRED DELIVERY CHANNEL IN DEVELOPED COUNTRIES PROVIDING CONVENIENCE, SECURITY AND SEVERAL OTHER BENEFITS TO THE ACCOUNT HOLDERS ROUND THE CLOCK. IN DEVELOPING COUNTRIES, AUTOMATED TELLER MACHINES (ATMS) STILL DOMINATE THE CONSUMER PREFERENCES BUT THE INFLUENCE OF MB IS PROFOUND AND ITS GROWTH IS PREDICTED TO BE PHENOMENAL.

Various market survey reports and the research on MB has reported that MB will soon become a primary delivery channel with immense benefits for the industry and the consumers. As argued by Rebecca Hellmann, marketing manager for Welch ATM (USA), 'the key to mobile technology success has been the growing prevalence of mobile devices and Internet availability. By offering a wide range of inexpensive and easy-to-use services through mobile devices, financial institutions have been able to attract clientele that were previously unattainable'. With the use of a portable device, the user can perform MB for balance & information inquiry, notifications & alerts, utility bills payments, and fund transfer via call, text, website, or using dedicated applications.

> Loyalty and Word-of-Mouth (WoM) are also considered significant in increasing the acceptance of MB services and applications in developed and developing countries.

The usage of mobile devices has recorded an explosive growth since 2007 when the smart phone called iPhone first appeared in the hands of Steve Jobs (former Chairman and CEO, Apple Inc.). The development of smart, convenient and portable devices did not start with smart phones. The tablet PCs, in fact, had already created a lot of excitement in the market when Bill Gates (former Chairman and CEO, Microsoft Corporation) introduced first Tablet PC in 2002 previously known as 'pen computers'. Afterwards, the Tablet PCs and smart phones gradually diminished the need for Personal Digital Assistances (PDAs) quite famous during 1990s. As a result, the tablet PCs and smart phones emerged as the most viable options to download and access the MB applications and services across the globe with an intensity to meet both communication and entertainment needs of the consumers. SMS banking has also occupied an important position in providing maximum reach amongst consumers but its usability has been considered limited to only information based-services.

Despite of its immense benefits and growth potential, McKinsey & Company has reported that only a handful of MB banking related deployments have reached a sustainable scale: some notable examples include M-Pesa in Kenya, Easypaisa in Pakistan, MTN in Uganda, Vodacom in Tanzania, FNB in South Africa, and GCASH and Smart Money in the Philippines. Similar to these developments, Mitek, a leading innovator of mobile imaging for financial transactions said in its 2014 predictions that with the emergence of "mobile first" and "mobile only" consumer segments, financial institutions will need to tailor marketing strategies to address their unique requirements and to keep pace with mobile users. Given the importance of these reports and predictions, the reasons to understand what factors influence consumer's intention to use MB will be beneficial for the industry and the practitioners.

In most of the developing countries located in Asian and African continents, the demographic factors, culture, and social norms dominate the MB acceptance criteria and influence the consumer behavior.

> "The usage of mobile devices has recorded an explosive growth since 2007 when the smart phone called iPhone was first appeared in the hands of Steve Jobs (former Chairman and CEO, Apple Inc.)."

Demographic factors primarily include income, gender, and education level of current and potential consumers. Considering the usability, availability, accessibility, and ease of use, most of the consumers in these countries living in rural areas prefer MB over traditional delivery banking channels like Automated Teller Machines (ATMs) and internet. However, in urban areas, ATM, Internet and Point of Sale (POS) terminals dominate the preference criteria. One of the intriguing factors which dampen the acceptance of MB among the urban population in developing countries is the growing security issues.

Developed countries have stable infrastructure and high level of education & awareness among consumers. The difference between the rural and the urban population is less profound. In this situation, the MB acceptance has considered to be less important for the consumers as compared to developing countries where a significant number of adults (approx. 2.7 billion) are either underbanked or un-banked. In a previous research, it has been observed that consumers in developed countries prefer internet banking over MB. Availability of high speed internet connectivity has decreased the need for MB among the consumers in these developed countries. MB has largely been used to conduct balance enquiry and paying utility bills. It is, therefore, considered as one of the additions in the existing service portfolio offered by banks and a large population still believes MB as an extension of internet banking. Ease-of-Use and Usefulness of the MB services dominate the satisfaction criteria which increased the acceptance level in most of the developed countries. In addition, Trust in MB applications and Social Networks are found equally important and highly influential in both developed and developing countries.

On the same lines, Loyalty and Word-of-Mouth (WoM) are also considered significant in increasing the acceptance of MB services and applications in developed and devel

"In developing countries, Automated Teller Machines (ATMs) still dominate the consumer preferences but the influence of MB is profound and its growth is predicted to be phenomenal."

oping countries. Satisfaction has, nevertheless, been considered a necessary step in loyalty formation but becomes less significant as loyalty begins to set through other mechanisms such as the role of personal determinism and social bonding at the institutional and personal level. A shift in emphasis from satisfaction to loyalty appears to be a worthwhile change in the marketing strategy for most firms because businesses understand the profit impact of having a loyal customer base. WoM, on the other hand, describes a different stimulant criterion. WOM may be defined as an informal type of communication between private parties concerning the evaluation of goods and services. Recently, it has been considered to be one of the most powerful forces in the market place.

In the wake of growing security breaches and trust deficit in MB, it is suggested that banks marketing strategy should build awareness and educate consumers on existing security features and forms of protection available in MB. The most obvious place to start would be within the existing consumer base. Yet, in one of the recently published reports, the Forrester Research Inc. has suggested developing one 'fat' application with extensive functionality and security for the convenience of different customer segments and with the capability of being used on various portable devices seamlessly.

Similarly, considering the huge growth of social networks, banks, telecom companies and service providers may consider WoM as an opportunity. It seems certain that as consumers become increasingly overwhelmed by product and service choices, positive WoM will stimulate the acceptance and usage decision-making process.

Note: This article has used the words 'consumer' and 'account holder' interchangeably.

ALTERNATE DELIVERY CHANNELS

A BOON OR BANE?

By: Muhammad Ahmed Khan

The option of using financial channels other than conventional means to process financial transactions- also known as e-banking, electronic banking, online banking, virtual banking, direct banking, etc., are many expressions of 'Alternative Delivery Channels'. ATM's were introduced, almost three decades ago, heralding the arrival of Alternate Delivery Channels (ADC) in Pakistan. At that time it was pitched as a product meant only for the elite clients of the banks, but market response and rapid pace at which the ATM became popular amongst the consumers was something country's banking sector pundits could never have anticipated in their wildest dreams.

ADC in Pakistan dates back to the sixties when Diners Club Pakistan, HBL and UBL used to offer credit card services to an exclusive band of customers, however, it enjoyed limited acceptance level as well as usage which was confined to a few leading hotels and outlets.

Then came 1994 and a couple of foreign banks introduced credit cards in the country as a mass market product, however, they burnt their fingers running up huge portfolio of unpaid bills and plentiful cases of litigation.

Perhaps the concept was a little ahead of time as neither consumers were duly primed up for the product, nor the card issuing banks read the market and the mindset of the

SOME RISKS ARE EASILY MANAGEABLE ISSUES RELATED TO ULTIMATE ORIGIN AND BENEFICIARY IS POTENTIALLY LINKED TO TERRORIST FINANCING AND MONEY LAUNDERING

prospective users. However, one thing became clear, the alternate delivery channels is the way forward for a country that is under-banked in the rural areas where almost 67% population resides.

Albeit losses sustained by the pioneering card issuers; they were instrumental to improve the quality of consumers' behavior and financial literacy that opened the gateway for the ADC in the country. Subsequent years saw introduction of a number of ADC variables, e.g., Debit Card, Point of Sale, Real time online transactions processing, etc. The latest being branchless banking and fund transfer services, the potential appears to be unlimited ranging from virtual banks to e-cash.

Unlike three decades ago, today credit card is no longer an elitist privilege, infact in most instances it is a default offering that comes with creation of customer- banker relationship; it is more of a necessity than a status symbol. It is a win-win for all, for consumers it is convenient while eliminating the risk in cash carrying, for banks it means reduced transaction costs, accuracy of data and reduced cash requirements. Such transactions help document the economy as well as enabling the government to improve revenue collection.

There is a down side to this rosy picture, in the wake of this progress, the regulators, issuers and consumers are confronted with growing challenges of misuse of ADCs; cyber frauds, terrorist financing etc.

Understandably, banking is all about risk management, but controlling a transaction that takes place within branch premises is far easier than something that is happening online using a number of interfaces and that is where the additional risk factors haunt the operators.

“ CREDIT CARD IS NO LONGER AN ELITIST PRIVILEGE, RELATIONSHIP; IT IS MORE OF A NECESSITY THAN A STATUS SYMBOL ”

User identification risk arises due to the lack of personal contact. It is challenging for institutions to verify bona-fide of the customers, which is critical for sound decision making.

Credit risk refers to difficulties in the above-mentioned process bring to fore the credit risk - an important element in making sound credit decisions.

Transaction risk occurs in the form of fraud, error, the inability to deliver products or services, the failure to maintain a competitive position and services, and the inability to manage information properly.

Total reliability risk is associated with each product and service offered and encompasses product development and delivery, transaction processing, system development, computing systems, complexity of products and services, and the internal control environment.

Technology / performance risk relates to dependency on technology and high-tech communication system and threats emanating from malfunction, improper or misuse of the same.

Financial risk contains losses mainly due to wrong authentication process and online frauds. It is the constant fear of transaction errors causing a potential monetary loss suffered by customers who perform online transactions.

Compliance and legal issues arise from the rapid growth in usage of e-banking and the differences between electronic and paper-based processes. This may include transaction due diligence as well as tracing the origin and / or ultimate beneficiary of funds.

Above all is “Reputational risk” which arises from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect a bank‘s ability to maintain existing, or establish new, business relationships and continued access to sources of funding.

The list can go on; the above is just an overview of the challenges confronting the financial services industry in the wake of ADC proliferation. While some risks are easily manageable issues related to ultimate origin and beneficiary is potentially linked to terrorist financing and money laundering. In recent times, many scandals were unearthed in which Online fund transfer and Branchless banking platforms of formal and alternate delivery channels were found to be used by unscrupulous elements for their gains.

The objective here is not to demonize the concept of ADC which has immensely helped achieving the financial inclusion at national level, but to evolve a consensus amongst all stakeholders with regard to observing a financial protocol. Standard operating procedures are at place at every service providing outlet, however, the problem lies with the adherence to these procedures and execution level of the same.

The problem is further compounded with the inclusion of retail shops as service outlets by providers of branchless banking services. Since people manning these outlets are striving for maximum profitability from financial transactions, they often resort to short cuts by bending the rules which poses threats not only transactional and operational risks but also exposes the banks and service providers to “reputational risk”.

So far the ADC growth has been phenomenal and it is expected to stay that way in future, the best way to keep the jinn of failure in the bottle is to strengthen the process of screening and selection of the informal service providers and introduction of a regular skill development program for their staff handling financial transactions.

printing of NEW CURRENCY NOTES:

An Unproductive Compulsive Exercise

By Dr. Sabir A. Jaffery

Normally, on the occasion of each Eid, State Bank of Pakistan undertakes printing of new currency notes, apparently to meet demand of the people who have taken upon themselves as a ritual to distribute Eidi among their kith and kin in crispy currency notes. Although, in any case, soaked and smeared currency notes have to be replaced for which this serves as an appropriate occasion.

Keeping on this tradition, SBP on the foregoing Eid issued 268 million, 713 thousand, and 700 pieces of new notes of various denominations of the face value of Rupees 75 billion, 34 million, and 778 thousand.

However, bulk of new notes are taken at source by the traders who make garlands of them to sell at premium to people who are keenly fond of using these garlands on different ceremonial occasions, such as, decorating bride-grooms or hajees on their return from Hajj. The premium at which these are being currently sold is reported to range from Rs.100 to Rs.400 per pack of different denominations. A substantial part of the remaining lot goes to influential persons, and thus the common men, largely remain deprived of them.

Unfortunately, cost of printing of new notes is exorbitant and unproductive, and has to be borne by the national exchequer as frequently as the fibrous currency notes become unusable. Fibrous currency also suffers from other multiple drawbacks, as listed below, owing to which several countries have replaced them.

SHORT LIFE SPAN

Useful life of paper currency notes is quite short. These soon get soaked, soiled and smeared. These are also easily worn out and deformed. In countries with humid climate, or where cash transactions outnumber other modes of financial transactions, the process of decay becomes much faster.

EASY TO COUNTERFEIT

Counterfeiting of paper currency is comparatively easy. With the advancement in technology, it has become further easier to print fibrous forged notes. On top of it, certain situations stimulate forgery. For example, demand for counterfeited currencies increase tremendously in the wake of political turbulence across the world. For instance, after the American onslaught in Afghanistan, truckloads of counterfeited US Dollars, Afghanis, and Pak Rupees were reported to be in circulation on either side of the Pak-Afghan border.

CARRIER OF INFECTIOUS BACTERIA

The latest uproar in the relevant circles is about the infectious bacteria carried by the dirty, decayed, soaked, soiled, and smeared currency notes as they change hands as a normal daily activity. Counting of notes by applying one's spittle first on the finger and then on the currency notes, and repeating the exercise again and again until the counting is over. This gives way to the bacteria to penetrate through the veins of the society.

In the wake of these hazards associated with fibrous currency, there is a need to search for a suitable alternate of paper currency.

Finally, when worn out, polymer notes can also be recycled and made into commercial products of high demand. Thus their printing cost is substantially reduced.

LESSON FOR PAKISTAN

Ours is a cash-ridden society. For more than one reason, most of the commercial transactions take place in cash. Transition to a cash-less society does not appear to be on the horizon. This demands heavy cash turnover. Our climatic conditions also affect the fiber of our currency notes quite adversely. The end result of these two factors is that the life span of our currency notes is shortened and needs more frequent replacement.

With the given pace of replacement, the recurring cost of printing which is non-productive in nature becomes exorbitant.

Since these notes always looking new and crispy, specific demand for newly printed notes to be used on ceremonial occasions becomes extinctand tends to discourage their trading.

Countries that have switched over to polymer currency are Australia, Papua New Guinea, Indonesia, Kuwait, Western Samoa, Singapore, Brunei, Sri Lanka, and Thailand. H.E. Brett Hackett, the then Acting High Commissioner for Australia in Pakistan, has in a recent communication informed that Bangladesh has also introduced polymer notes for one currency denomination. India is also now actively marching ahead toward introducing polymer currency.

In view of the foregoing, polymer notes should be considered as a viable option instead of paper notes albeit in phases.

> **“DEEP ROOTED FINANCIAL CORRUPTION IS NOT LIKELY TO LET CASH-LESS SOCIETY OPERATE IN OUR COUNTRY EVEN IN DISTANT FUTURE”**

ALTERNATE OF FIBROUS CURRENCY, THE POLYMER BANK NOTES

The substantial counterfeiting of currency notes in Australia during early sixties provided an impetus to the Reserve Bank of Australia to develop new notes technology in the form of polymer currency notes.

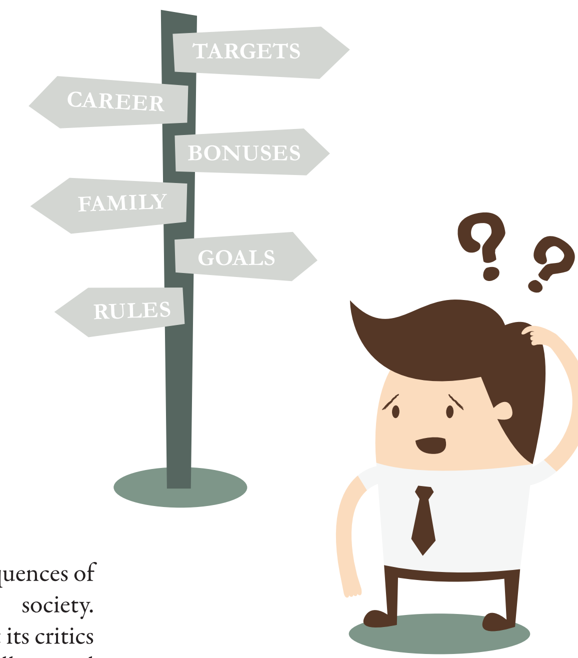
ADVANTAGES OF POLYMER CURRENCY OVER FIBROUS CURRENCY

The polymer currency notes are claimed to have manifold advantages over paper currency, such as:

These are difficult to forge and are also cost effective. According to a research report published in The Economist, London (April 5th.-11th., 1977), even though a plastic currency note costs almost twice as much as paper note does, it lasts up to four times as long. The difference is much greater in countries with humid climate and massive cash turnover where life span of paper notes is immensely shortened.

Unhygienic elements absorbed by the fiber of paper do not stick on plastic surface. Again, plastic notes are capable to be laundered --- washed and ironed.

Doing the right thing



BOB SOUSTER examines a couple of ethical scenarios on the subject of moral reasoning, which he recently debated with a group of international bankers.

One part of the Institute's Chartered Banker MBA programme, offered in association with Bangor University, is a series of Webex seminars. A recent seminar on the subject of moral reasoning explored the factors that drive individuals when coming to decisions that they consider to be right. The core issue is not whether the decision taken is right or wrong, but rather the forces and influences that contribute to the decision-taking process.

THE ACADEMIC PERSPECTIVE

The seminar was based around the ideas of two prominent writers on ethics: Lawrence Kohlberg and Roger Steare.

Kohlberg's research brought him to a conclusion that the moral reasoning of individuals evolves through three distinct phases. At pre-conventional stage, individuals are driven by the prospect of rewards for doing the right thing and punishment for doing the wrong. These stimuli are developed at home, at school and by family and peer groups. At conventional stage, individuals are influenced by the need to conform to expectations and to comply with rules. At post-conventional stage, individuals take a more mature view of right and wrong, based on duties to others, consequences of actions and outcomes to society. Kohlberg's theory is not without its critics – his research was based on small control groups and his view that individuals pass through these stages sequentially is subject to some debate.

Steare is a contemporary writer on ethical thinking. To demonstrate his approach, consider his example of a person who receives £200 from an ATM, even though the request was for only £100. Should the individual give it back to the bank? Of course they should! But like Kohlberg, Steare's thinking is not about what the right decision to make is, but what factors contribute to taking that decision. Firstly, Steare suggests that some will be driven by principled conscience. This is a duty-driven stimulus to do the right thing, even perhaps the "kind" thing. This is an extension of virtue ethics: displaying characteristics that are considered to be "good". Secondly, Steare identifies social conscience. Here the individual looks at the consequences, and so may act on what he or she considers to be for the benefit of stakeholders in the decision, or even for most people in society. Lastly, the decision may be driven by rule compliance, or the need to obey the law and commonly held expectations of those around us.

THE CHALLENGE

The proposition put to the seminar was that individuals who are faced with difficult ethical dilemmas will not always respond in a post-conventional or even a conventional manner when environmental forces bring pressure to bear. Or putting it another way, social conscience may override both principled conscience and rule compliance drivers, as the decision- taker could well be most concerned with the immediate consequences.

Are bankers fundamentally driven by pre-conventional stimuli, such as:

- meeting our targets
- losing our bonuses
- getting promoted and reaching career goals
- threats of losing what we have gained for our families
- compliance with rules for fear of repercussions?

> "Social conscience may override both principled conscience and rule compliance drivers, as the decision-taker could well be most concerned with the immediate consequences."

SCENARIO 1:

Consider a situation in which you are a successful, career banker with a promising future, and your manager asks you to do something that is wrong, with the promise that he will support you. As far as the seminar participants were concerned, this would be a step too far, and the consensus was that contemporary bankers are driven by conventional reasoning...a duty to obey the rules, not to do things that are wrong, but also mindful of the negative consequences that the wrongful action may bring. Some went out on a limb and said that they would not only refuse to comply, but also would report the matter, effectively blowing the whistle on the manager (pre-conventional). But not everybody agreed.

SCENARIO 2:

This is a similar situation, but in this case you uncover some discrepancies in a management report that will have a positive impact on the perceived performance of the department. This could be anything, perhaps an entry showing receivables from lending that you know should be written off as bad debts. However, as the figures stand, you and your colleagues will meet your targets, and there is no harm done as the improved performance in the next two quarters will more than make up for this. On this occasion, the manager does not ask you to do anything wrong, but simply says "It's none of your business, I am the one signing the report."

Should you take the matter further? Should you blow the whistle to a senior person, may be the independent non-executive director responsible for dealing with such matters?

THE ANALYSIS

Keeping quiet is most certainly wrong, but the seminar participants doubted that many people would be prepared to take the matter upstairs regardless of the consequences. Herein lies the dilemma for the person who has to decide whether to act or not to act. What would you do?

Before concluding that the individual who does nothing is a person of straw with weak principles. Have a look at the case of the senior whistle blower in one of the major UK banks. This person was an executive with the bank, very upwardly mobile with a sound reputation. He blew the whistle in a very public way, exposing his senior colleagues to action by the regulator. He did exactly the right thing. The person involved left the bank and has not have a single job interview since. He was basically untouchable, just for doing the right thing. On paper, the ethical action is supported by legislation such as the Public Interest Disclosure Act, and in many cases by internal policies. But the reality is that it will be very difficult to stay.

You may want to conclude that you would do the right thing, report it, and feel good afterwards. But it is then tougher to go home and tell your husband or wife or partner and children that you have done the right thing, that you should all feel good, but there might be a problem paying the mortgage and feeding the kids in the future.

That is the tough part. And faced with such tough issues, it is a small wonder that people will get pre-conventional all of a sudden.

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

By: Zahir Ali Quettawala

Electronic Information Management System: (ERM)

Recommendations of BS 10008

Digital storage can often be more perishable than paper. Keeping electronic records that may need to be produced as evidence in disputes is presenting an ever increasing risk. Organizations need to ensure the proper management of electronic information over long periods, especially through technology changes, where information integrity is vital.

British Standard, BS 10008 can support you in implementing a successful framework to ensure the authenticity and integrity of electronic information and manage the associated risks.

" It sets out the requirements for implementing and operating an electronic information manage-ment system, and the electronic transfer of information from one computer system to another."

> **“THE STRUCTURE OF AN ERMS SHOULD ALWAYS INCLUDE AN ADEQUATE RISK ANALYSIS.”**

British Standard BS 10008 defines the requirements for the implementation and operation of an electronic information management system. This includes data processing, sharing of information between computers and electronic storage. The standard addresses the authenticity and integrity of data to satisfy legal requirements.

It sets out the requirements for implementing and operating an electronic information management system, and the electronic transfer of information from one computer system to another. It covers any form of electronic information, from scanned and word processed documents through to AV files and CCTV video streams. It provides the requirements for a secure system to manage electronic information throughout its lifetime.

BS 10008 contains three codes of practice with additional requirements for information storage and transfer, and the linking of information and electronic identities:

- BIP 0008-1 serves as the supporting guideline for the implementation of BS 10008 and covers information management planning, risk evaluation, information security directives, documentation, data collection and processing, version control, storage systems, audit and continuous improvement.

- BIP 0008-2 targets in particular the authenticity, integrity and availability of information during electronic transmission (e.g. email, mobile messaging (SMS), instant messag ing, web services, web forms, XML and electronic data interchange – EDI).

- BIP 0008-3 deals with the authenticity, integrity and availability of electronic identities linked with documents (e.g. use of certificates and trusted third parties).

What Are the Risks of Non-Compliance?

The willful or negligent non-compliance with the obligation to retain information carries legal and material and immaterial risks. Various sanctions can apply if, for example, accounts are not properly maintained or stored in accordance with regulations. These sanctions range from the loss of pre-tax and after-tax to heavy fines and prison sentences. There are also immaterial risks, such as damage to reputation if, for example, data protection infringements are revealed and made public. Therefore, the structure of an ERMS should always include an adequate risk analysis.

The Risk Control System at a Glance

The table below illustrates how BS 10008 standard could assist the management of electronic information at different levels:

LEVEL	STANDARD	CHAPTER / CONTROL TARGET AREAS OF THE ERMS	
Strategic level	BS 10008 Evidential Weight and legal admissibility of electronic information	**Planning of ERMS Policies** • Information management • Information security • Electronic data archiving / transfer / identity evaluation	• Risk evaluation • Audit processes • Observation and improvement • Compliance and improvement
Tactical level	BS 10008 Evidential Weight and legal admissibility of electronic information	**Planning** • Roles and responsibilities of employees • Reports and communication	• Documentation and archival • Information management tests
Operational level	BS 10008 BIP 0008-1 BIP 0008-2 BIP 0008-3	**Implementation and operative** • Acquisition of information • Self-adjustment of data • Framework document • Version checking • System maintenence	• Index and metadata • Result • Identity • Use • Back-up and regeneration
Principles, it architecture	BS 10008 BIP 0008-1 BIP 0008-2 BIP 0008-3	**Support** • Information storage • Information transfer	• Information security / architecture • External service provider
Basic Security and IT architecture	ISO/IEC 27001	**Basic security** • IT architecture • Communication / transmission	• Identification / authorization • Access / authorization concept

How to Ensure Compliance?

The following table outlines some of the most important processes and procedures suggested by Code of Practice for the Implementation of BS 10008 that need to be established to ensure compliance. (table below)

BS 10008 can provide assurance that any electronic information required as evidence of a business transaction is afforded the maximum evidential weight. Compliance with this standard does not guarantee legal admissibility, but it defines best practice by setting up authorized procedures and subsequently being able to demonstrate, in a court of law, that these procedures have been followed.

PROCESSES/ PROCEDURES	DESCRIPTION
Duty of Care	The board of directors of an organization is responsible for the conduct of that organization in every way—financially, operationally, legally and ethically. Specifically, it has responsibility for the organization's assets and their use. One such asset is information - not information systems, but stored information itself. It is essential that organizations be aware of the value of information that they store.
Security Measures	All information, irrespective of the media on which it is stored, is vulnerable to loss or change, whether accidental or malicious. To protect information stored electronically, a structured approach needs to be established i.e. to review the information assets of the organization, and then assign risk factors based on asset value, potential threats, system vulnerability and likelihood of attack. 9
Access Rights	"The segregation of roles is a fundamental aspect of duty of care". Only staff with relevant access rights should be permitted to enter data or amend stored data. It is also important to ensure that a suitably granular level of automatic logging is applied to the process to record the activities performed, times and dates.
Reliable and Trustworthy Systems	The information management system should be maintained only by qualified personnel. A maintenance log should be kept, stating the preventive and corrective maintenance procedures completed. The log should include information regarding system downtime and details of action taken. Where system access control can be bypassed during maintenance of hardware and/or software, personnel performing such processes should be strictly controlled, monitored and audited.
Business Continuity Planning	From time to time, problems arise with information management systems that require emergency procedures to be implemented in order for recovery. Such procedures may involve the temporary use of additional or third-party resources. Procedures to be used in cases of major equipment, environmental or personnel failure should be developed, tested, maintained and implemented. Such procedures should ensure that the integrity of stored information is not compromised during implementation.
Date and Time Stamps	Being able to determine the date and/or time of an event can be an important piece of evidence. Thus, all appropriate events should be date- and/or time-stamped. Where accuracy of date and/or time stamps is important, regular checking of system clocks should be carried out. Any errors should be corrected and any actions taken should be documented. Only authorized personnel should be able to change system clocks.
Audit Trails	When preparing information for use as evidence, it is often necessary to provide further supporting information. This information may include details such as date of storage of the information, details of movement of the information from a medium, and evidence of the controlled operation of the system. These details are known as audit trail information. Audit trails need to be comprehensive and properly looked after, because without them, the integrity and authenticity and, thus, the evidential weight of the information stored in the system could be called into question.

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An overview of

Islamic Banking & Finance In Pakistan

By: Abdul Ghafoor Malik

"But Allah hath permitted trade and forbidden Riba. Those who after receiving direction from Allah, desist, shall be pardoned for the past, their case is for Allah to judge" [2:275]

Islamic banking is a viable and interesting area to proficiently cater banking needs of the people according to the Sharia law. Since the inception of Islamic banking in Pakistan during recent past i.e in 1980s, we have witnessed major developments in banking activities.

State Bank of Pakistan has granted licenses to Islamic Banks to work as scheduled banks to provide banking services to the people according to the Sharia law. Accordingly, certain conventional banks have also opened Islamic bank branches to provide financial services according to the Sharia law. However, people have strong reservations against this arrangement by conventional banks because they consider it as an eye-wash for Islamic mode of banking.

Islamic banking is different to the conventional banking which people are familiar with. Hence, Islamic banks will have to operate their capabilities to penetrate in the thick layer of competitive environment of conventional banking.

The analysis of Islamic financial services enables customers to comprehend the growing importance of Islamic banking that is free of negative attitude and rises above cultural and religious diversities in Pakistan. Hence, Islamic banks should develop pipelines for inflow of deposits, investment and business from intending customers to convert them into life lines for their persistent growth. In line with strong base for investment seen ahead, high competency in sales and marketing is required to drive and develop business and tap the potential fields. This situation demands a comprehensive working plan to continue to stride forward to achieve the objective. Good analytical work, visionary planning, professional skills and effective administration are essential attributes to accomplish the task.

The customers should be infused in spirit to work with Islamic banks for their safe, secure and profitable investments. The level of care and professionalism must be extended to customers to maximum possible extent. Whatever the complaint from a customer; solution provided should be carefully monitored and orchestrated with planned course of action. Customers appreciate personally coordinated efforts for remedy of their grievances and solution of their problems.

Marketing is widely recognized as key to success for any organization irrespective of its size or sector of economy in which it operates. At a deeper level, course of marketing activity views organizational success as being driven by provision of long-term customer satisfaction to meet their business needs.

The development of marketing activity in the financial sector has been slow and for a long time, the industry was observed and seen primarily as product led pattern only. Until recently, marketing in most of the banks was largely tantamount with advertising and public relationing and it was not until 1970s that marketing departments were created in few banks. Banks were engaged traditionally in banking business i.e borrowing from one market and lending to another. However, now their direction has changed to sell financial services with a much wider focus on customers' needs.

Research and development has a direct impact on banking operations to increase level of competition as well as creating new avenues to provide better financial services. Thus, banks should carry out research to fabricate new inventions, concepts to build systems and solutions to implement for expansion of their business.

In view of global socio-economic war, hostilities stuffed by numerous factors of un-professional conduct of economy and facing threat of several internal and external economic pressures, Pakistan is in the grip of

“Research and development has a direct impact on banking operations to increase level of competition as well as creating new avenues to provide better financial services.”

spiraling inflation. Distortion in economy threatens to even worsen the situation due to these very factors. Situation can be improved through savings and investments by public and providing vibrant financial services by banks. Banks are regarded as secured and profitable organizations because State Bank of Pakistan regulates their functioning and provides guaranty for security of deposits and investments of account holders. Also, there have been barriers to entry for non-financial institutions in the banking sector; hence banks have been in an advantageous position to choose customers that meet their optimal revenue costs, risk equations and reckoning.

Repositioning, new business models, business process and re-engineering are platforms to retain banks as primary institutions in the financial sector.

In repositioning, banks place great focus on mass markets that form backbone of retail banking. Retail banking covers a wide range of customers from individuals to small and medium enterprises. The choice of a bank is based on a selected slot, market preference, competitive strengths and its will to emerge as a winner.

Recently, local banks placed greater focus on consumer banking. In fact, consumer banking presented tough competition and banks suffered enormous loss as they lost control over their work force who violated the system by not completing procedural requirements. Yet, all banks are seen to converge on consumer banking, as this segment of the retail market is expected to grow fast in sequence with rising GDP and per capita income. However, banks will have to refrain from cut throat competition and ensure that all procedural requirements are completed before consumer loans are sanctioned.

Internationally, successful consumer banking outfits demonstrate certain core skills, judgment for customers, re-engineering of organizational structure from transactional to sales, sensible and efficient risk management. Whether Islamic banks can attain these competitive core skills, will largely determine the rate of their success or failure.

Other banks can be forced to resist and ward-off competition on their profitable investments with an aggressive approach by Islamic banks. Hence, lucrative investment fields must be explored and barriers should be reviewed on investments. Islamic banks are facing competition and have to perform against key competitors involved in neck to neck competition of banking services.

The Islamic banks must constantly strive to equip themselves with appropriate skills to remain competitive in the market. This will put Islamic banks in the driving seat to attain inspiring leadership of banking industry. Mode of Islamic banking remained neglected that has hit the market. Hence, several skeptical small investors who explored the facility for Islamic mode of investment but failed in their attempt due to limited financial services and branch network of Islamic banks. The slow growth also stems from little or no aggressive marketing by existing Islamic banks in offering banking services according to the Sharia laws.

Bankers and professional managers must realize that strategic investors can offer regeneration and salvation of benefits. The responsibility of a banker is to get anchor investors on board. He should ensure the presence of long term, quality investors who understand the investment merits of their capital.

Islamic banks should take proactive steps to continuously improve their management systems, strive for quality services, business excellence and total customer satisfaction. This achievement will lead Islamic banks to deliver even better quality service levels to all customers to achieve prestigious position amongst competitor banks. In a highly complex and intense competitive environment, Islamic banks have to ensure consistent business growth to attain and sustain their leadership. Hence, Islamic banks will have to constantly focus on total customer satisfaction through obsessive,

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> "Islamic banks should focus strategically to their new business model, which builds on existing strength of unmatched range of products. At the same time the highest single priority should remain cause to employees, people, customers and shareholders."

relentless growth, innovation and value creation. The deliveries of fast, responsive, reliable, complete and constant high quality services with lower costs must remain as Islamic banks' main business strategies is to achieve competitive advantage. The investors' sentiment index has adversely fallen in view of unsecured, less profitable investment opportunities due to negative economic pressures. Islamic banks have to make their way and work under these difficult and intense environments. There is a plus and strong point prevailing into the people to sincerely work with banks operating Islamic mode of banking. Islamic banks must explore, motivate and en-cash this strength of character of people to expand their business.

Islamic banks should focus strategically to their new business model, which builds on existing strength of unmatched range of products. At the same time the highest single priority should remain cause to employees, people, customers and shareholders. This would make Islamic banks an icon organization committed to effectively provide financial services to people according to the Islamic laws.

Trading and treasury operations are nerve centers for all banks, hence advanced and timely information and communication technology are crucial factors. The strategy should be, to do business that establishes deep roots, riding over economic cycles, growing customer base and product diversity.

Operational Aspects with Reference to Field Work:

People from all walks of life have a thirst for Islamic banking. All is required to educate, motivate and market the significance and viability of Islamic banking to get the desired results.

Deposits build basis of banking activities. In view of the aspirations of the people for Islamic banking, there is a vast scope to bring deposits. Development, promotion and marketing are the key factors to generate deposits to achieve the objective.

Some of the tools and potential fields to generate deposits are described as follows:

Tools

1. Create marketing and research & development departments at apex offices of the banks.
2. Organize seminars periodically on regular basis through-out the country to give presentations on Islamic mode of banking.
3. Expand branch network.
4. Provide quality financial services.
5. Ensure high and sustainable profits.
6. Provide excellent lending facilities.
7. Facilitate foreign remittances.
8. Literature should be reviewed and re-aligned.

Potential Fields

General public, Zamindars / Agriculturists, Industrialists, Commercial organizations, Manufacturers, Traders. Importers, Exporters, Distributors and their dealer network.

The staff must be capable, efficient and demonstrate full application and operation of their expertise to handle business transactions to the satisfaction of customers and make them integral part of Islamic Banking operations.

WARRIOR OF LIGHT

Before embarking on an important battle, a warrior of light asks himself: 'How far have I developed my abilities'

He knows that he has learned something with every battle he has fought, but many of those lessons have caused him unnecessary suffering. More than once he has wasted his time fighting for a lie. And he has suffered for people who did not deserve his love.

Victors never make the same mistake twice. That is why the Warrior only risks his heart for something worthwhile.

Paulo Coelho

View on Bankers
on the lighter side

- 3 people get stranded on a remote island, a banker, a daily mail reader & an asylum seeker. All they have to eat is a box of 10 Mars bars. The Banker says "Because of my expertise in asset management, I'll look after our resources".

The other 2 agree.

So the banker opens the box, gobbles down 9 of the Mars bars and hands the last one to the daily mail reader. He then says, " I'd keep an eye on that asylum seeker, he's after your Mars Bar" Christopher Brookmyre

- "Bankers are driving us to hell in a vehicle, we are paying the installments on" Anonymous

- "You could carve out the inside of a brick and hide your money in it for safe keeping. It's certainly safer than keeping it in the bank!" Nicole McKay

- "Good bankers, like good tea, can only be appreciated when they are in hot water." Anonymous

Interesting Quotes

- "Be who you are and say what you feel, because those who mind don't matter, and those who matter don't mind." Bernard M. Baruch
- "If you can't explain it simply, you don't understand it well enough." Albert Einstein
- "Kindness is a language that the deaf can hear and the blind can see." Mark Twain
- "Humility is not thinking less of yourself, it's thinking of yourself less." C.S. Lewis
- "The greatest need of our age and of every age, the greatest need of every human heart, is to know the resources and sufficiency of God." A B Simpson
- "Think like a man of action, act like a man of thought." Henry Bergson
- "A room without books is like a body without a soul." Cicero
- "Be nice to nerds. You may end up working for them. We all could." Charles J. Sykes
- "Fools take a knife and stab people in the back. The wise take a knife, cut the cord, and set themselves free from the fools." Anonymous

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