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HANDOUT

BNK701

Banking Laws & Practices

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BNK701 - Banking Laws & Practices

A structured study handout compiled from the course's lecture topics. Read each topic's objectives first, study the key concepts, then use the summary and exam tips for revision.

BNK701

Banking Laws & Practices

Based on 45 lecture topics

Compiled for VU students as a structured study guide

*Concepts are summarized in the writer's own words;
use alongside your lecture videos for best results.*

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Course Introduction

Banking Laws & Practices studies the legal framework that governs banks and banking business in Pakistan, together with the practical operations through which banks serve customers. A banker who knows the law avoids losses: most banking disputes arise not from bad business but from misunderstood legal duties.

The course begins with the evolution of banking and the legal definition of a banker and customer. It then covers the core statutes: the State Bank of Pakistan Act 1956, the Banking Companies Ordinance 1962, and related laws on negotiable instruments, electronic transactions, and anti-money laundering. Practical units explain account opening and KYC, cheques and payment instruments, lending and securities, guarantees and letters of credit, and the banker-customer relationship including secrecy, lien, and set-off.

Later units cover Islamic banking law, consumer protection, the banking ombudsman and courts, and emerging issues such as digital banking regulation and financial inclusion. Students learn to connect each legal rule to the daily work of a bank branch.

How to use this handout: Each topic lists its learning objectives, explains the key concepts in simple words, defines important terms, gives an example where helpful, and closes with a summary plus exam tips. Topics marked **Very important** deserve extra revision.

Unit 1: Banking: Evolution, Definition, and Legal Framework

Topic 1: Evolution of Banking

Learning Objectives

- Trace the history of banking from ancient to modern times
- Describe the development of banking in the subcontinent
- Explain the nationalization and privatization phases in Pakistan

Key Concepts

Banking began with ancient moneylenders and temple treasuries; the word 'bank' comes from the Italian 'banco', the bench on which money changers worked. Modern banking grew with the Bank of England (1694) and spread through colonial trade networks.

In the subcontinent, indigenous bankers (sahukars) financed trade long before British-era presidency banks and exchange banks appeared. After 1947, Pakistan inherited few banks; the State Bank of Pakistan was established in 1948, and Pakistani commercial banks grew rapidly in the 1950s-60s.

In 1974 banks were nationalized, consolidating them into a few large public banks. From the 1990s, privatization and liberalization reopened the sector: private and foreign banks entered, the State Bank gained autonomy, and prudential regulations modernized supervision.

Key Points

- Banking evolved from money changers to modern joint-stock banks.
- SBP was established in 1948; banks were nationalized in 1974.
- 1990s reforms brought privatization, new private banks, and stronger SBP supervision.

Key Terms

Nationalization: State takeover of private banks, in Pakistan in 1974.

Privatization: Sale of state-owned banks to private owners, from the 1990s.

Prudential regulations: SBP rules ensuring safe and sound banking.

Example

- *MCB and Allied Bank were privatized in the 1990s and became leading private banks.*

Summary: Pakistani banking moved from colonial banks to nationalization and then to a liberalized private-sector system under SBP supervision.

Exam Tips

- ★ Very important: the 1948, 1974, and 1990s milestones.
- ★ Remember what nationalization and privatization mean in the banking context.

Topic 2: Definition of Banker and Customer

Learning Objectives

- Define banker and customer legally
- Explain when the banker-customer relationship begins
- Distinguish customers from casual visitors

Key Concepts

Legally, a banker is a person or institution carrying on the business of banking - accepting deposits, lending, and providing payment services - under license from the State Bank. In Pakistan no one may use the word 'bank' or conduct banking business without SBP permission.

A customer is a person who has an account with the bank, or for whom the bank has agreed to act in a banking capacity. The relationship begins when the account is opened and the bank accepts the customer - not merely by walking into a branch. Courts have held that even a single transaction, like depositing money for collection, can create the relationship.

Duration matters: once a customer, the relationship's duties (secrecy, care) continue even after the account closes for matters arising during it. A person who only inquires about rates or uses the ATM lobby without an account is generally not a customer.

Key Points

- A banker is a licensed person/institution conducting banking business.
- A customer holds an account or has a banking-service agreement with the bank.
- The relationship starts at account opening, not at first branch visit.

Key Terms

Banker: A licensed person or body corporate doing banking business.

Customer: One who has an account with, or a banking-service agreement from, the bank.

Banking business: Accepting deposits, lending, and related licensed activities.

Example

- *A person depositing a cheque for collection becomes a customer for that transaction even without a prior account.*

Summary: Banker and customer are legal statuses created by licensing and by the account/service agreement, triggering mutual duties.

Exam Tips

- ★ Very important: when exactly the banker-customer relationship begins.
- ★ Remember: SBP license is required to do banking business.

Topic 3: Types of Banks and Banking Systems

Learning Objectives

- Classify banks by function and ownership
- Explain central vs. commercial banking
- Describe specialized banks in Pakistan

Key Concepts

Banks are classified by function: central banks (SBP - currency issue, monetary policy, supervision), commercial banks (deposits and lending to the public), and specialized banks. By ownership: public sector, private domestic, foreign, and Islamic banks.

Pakistan's specialized institutions include microfinance banks (serving small borrowers, e.g. Khushhali Bank), development finance institutions (long-term project finance), and Islamic banks operating under Shariah principles. Branchless banking extends services through agents and mobile wallets.

Unit banking (single-office banks) versus branch banking (networks): Pakistan follows branch banking, letting banks mobilize deposits nationwide. Correspondent banking links banks internationally for trade and remittances.

Key Points

- Central bank (SBP) vs. commercial banks vs. specialized banks.
- Ownership: public, private, foreign, Islamic; plus microfinance banks.
- Pakistan uses branch banking; correspondent banking connects banks globally.

Key Terms

Central bank: The apex bank issuing currency and supervising the system.

Microfinance bank: A bank serving small borrowers and the unbanked.

Correspondent banking: Arrangements between banks in different countries for services.

Example

- *A Pakistani exporter's US buyer pays through correspondent banks linking both countries' banks.*

Summary: The banking system layers the central bank, commercial banks, and specialized institutions under branch banking.

Exam Tips

- ★ Key point: functions that distinguish central from commercial banks.
- ★ Remember microfinance banks' role in financial inclusion.

Topic 4: Sources of Banking Law in Pakistan

Learning Objectives

- List the main banking statutes
- Explain the hierarchy of banking regulation
- Describe SBP's regulatory powers

Key Concepts

Banking law in Pakistan rests on several statutes. The State Bank of Pakistan Act 1956 establishes SBP, its objectives, and powers. The Banking Companies Ordinance 1962 is the core law: licensing, capital requirements, management, accounts, inspection, and winding up of banks.

Supporting laws include the Negotiable Instruments Act 1881 (cheques, bills, promissory notes), the Electronic Transactions Ordinance 2002 (digital signatures and e-contracts), the Anti-Money Laundering Act 2010, the Financial Institutions (Recovery of Finances) Ordinance 2001 (loan recovery), and the Payment Systems and Electronic Fund Transfers Act 2007.

Below statutes, SBP issues regulations, circulars, and prudential regulations that banks must follow day to day; breach can bring penalties, fines, or license action. Court judgments interpret these laws and create binding precedents.

Key Points

- Core statutes: SBP Act 1956 and Banking Companies Ordinance 1962.
- Supporting: Negotiable Instruments Act 1881, ETO 2002, AML Act 2010, Recovery Ordinance 2001.
- SBP regulations and circulars have day-to-day binding force.

Key Terms

Banking Companies Ordinance 1962: The core statute governing banks in Pakistan.

Prudential regulations: SBP's detailed safety and conduct rules for banks.

Precedent: A court decision binding in later similar cases.

Example

- *A bank refusing a license application appeals under the Banking Companies Ordinance's licensing provisions.*

Summary: Banking law combines core statutes, supporting laws, SBP regulations, and court precedents into one compliance framework.

Exam Tips

- ★ Very important: name the core statutes and what each governs.
- ★ Remember the years: SBP Act 1956, BCO 1962, NI Act 1881.

Topic 5: State Bank of Pakistan: Functions and Powers

Learning Objectives

- List SBP's statutory functions
- Explain monetary policy tools
- Describe SBP's supervisory role

Key Concepts

The State Bank of Pakistan is the central bank. Its functions: sole issuer of currency notes, banker to the government, bankers' bank (holding banks' reserves, lender of last resort), controller of credit through monetary policy, regulator and supervisor of banks, and manager of foreign exchange reserves.

Monetary policy tools include the policy (discount) rate - raising it makes borrowing costlier and cools inflation; open market operations (buying/selling securities); and reserve requirements (cash reserve and liquidity ratios banks must hold).

Supervision means licensing banks, inspecting them on-site and off-site, enforcing prudential regulations on capital adequacy, lending limits, and classification of bad loans, and taking enforcement action - fines, restrictions, or removing management - against violations. SBP also runs the deposit protection scheme and promotes financial inclusion.

Key Points

- SBP: currency issue, government's banker, bankers' bank, monetary policy, supervision.
- Policy tools: policy rate, open market operations, reserve requirements.
- Supervision: licensing, inspection, prudential rules, enforcement.

Key Terms

Monetary policy: Central bank actions influencing money supply and interest rates.

Lender of last resort: Central bank lending to banks facing liquidity crises.

Policy rate: The interest rate SBP charges banks; the economy's benchmark.

Example

- *SBP raises the policy rate to 22% to fight inflation, making all bank loans costlier.*

Summary: SBP combines monetary authority, currency management, and comprehensive supervision of the banking system.

Exam Tips

- ★ Very important: SBP's functions and the three monetary policy tools.
- ★ Remember lender of last resort and what raising the policy rate does.

Unit 2: Banker-Customer Relationship and Accounts

Topic 6: Nature of the Banker-Customer Relationship

Learning Objectives

- Explain the debtor-creditor basis of the relationship
- Describe additional roles banks play
- Identify duties each side owes

Key Concepts

The core legal relationship is debtor and creditor: when a customer deposits money, the bank becomes the debtor (it owes the deposit back on demand) and the customer the creditor. When the bank lends, the positions reverse. The famous case *Foley v Hill* established that deposited money becomes the bank's property, repayable as a debt - the bank is not a trustee of the cash.

Banks also act in other capacities: as agent (collecting cheques, paying bills), as trustee (holding valuables in safe custody), and as bailee. Each role carries its own duties.

The customer's duties: to make demands properly (e.g. draw cheques correctly) and to inform the bank of forgery or errors promptly. The bank's duties: honor valid cheques, maintain secrecy, exercise care, and follow the mandate.

Key Points

- Core relationship: debtor-creditor (Foley v Hill) - deposits become the bank's money, owed back as debt.
- Bank may also be agent, trustee, or bailee.
- Customer must draw cheques properly and report forgery; bank must honor mandates and keep secrecy.

Key Terms

Debtor-creditor: The basic legal character: deposits are debts the bank owes.

Foley v Hill: The leading case establishing the debtor-creditor relationship.

Mandate: The customer's instructions to the bank, e.g. account operating instructions.

Example

- *A customer cannot demand 'their' specific banknotes back - the bank owes an equivalent sum, not the same notes.*

Summary: Deposits create a debtor-creditor relationship, with agency and trust roles layered on for specific services.

Exam Tips

- ★ Very important: Foley v Hill and the debtor-creditor principle.
- ★ Remember the customer's duties: proper demands and prompt forgery reports.

Topic 7: Opening Accounts and KYC

Learning Objectives

- Describe the account opening process
- Explain KYC and AML requirements
- List documents for individuals and companies

Key Concepts

Account opening is a contract: the applicant fills the account opening form, provides CNIC and proof, gives specimen signatures, and the bank verifies identity before accepting. The bank may refuse any applicant without giving reasons (subject to anti-discrimination and financial-inclusion policies).

Know Your Customer (KYC) rules under the AML Act and SBP regulations require verifying identity, understanding the account's purpose and expected activity, and ongoing monitoring for suspicious transactions. Banks classify customers by risk: politically exposed persons and high-risk businesses face enhanced due diligence.

Individuals provide CNIC, proof of address/income, and Zakat exemption declarations where relevant. Companies provide incorporation certificates, memorandum and articles, board resolutions authorizing the account and its operators, and directors' CNICs. Accounts for minors, joint accounts, partnerships, and trusts each have special operating rules.

Key Points

- Account opening is a contract requiring identity verification and bank acceptance.
- KYC/AML: verify identity, assess purpose, monitor transactions; enhanced checks for high-risk customers.
- Companies need incorporation documents plus board resolutions.

Key Terms

KYC: Know Your Customer: identity verification and risk assessment.

AML: Anti-money laundering controls.

Enhanced due diligence: Deeper checks for high-risk customers.

Specimen signature: The recorded signature used to verify instructions.

Example

- A charity's account triggers enhanced due diligence because NGOs are higher AML risk.

Summary: KYC-compliant account opening protects the bank from fraud and money-laundering liability.

Exam Tips

- ★ Very important: KYC steps and documents for companies.
- ★ Remember the bank's right to refuse an account.

Topic 8: Types of Deposit Accounts

Learning Objectives

- Distinguish current, savings, and term deposits
- Explain profit calculation on PLS accounts
- Describe special account types

Key Concepts

Current accounts hold demand deposits for businesses and individuals needing frequent transactions; they pay no profit and allow unlimited withdrawals. Savings (PLS - profit and loss sharing) accounts pay profit calculated on minimum monthly balances, with limited withdrawals in some variants.

Term/fixed deposits lock money for a set period (e.g. 3 months to 5 years) at agreed profit rates; premature withdrawal usually forfeits profit. Special accounts include foreign currency accounts (protected under the Foreign Currency Accounts Protection Ordinance 2001), Roshan Digital Accounts for overseas Pakistanis, and Asaan accounts with simplified KYC for financial inclusion.

Profit on PLS deposits is declared monthly by banks based on actual earnings, after SBP's profit-calculation rules. Zakat is deducted at source on relevant balances unless exemption is declared.

Key Points

- Current: no profit, unlimited transactions; Savings (PLS): profit on balances; Term: higher profit, locked period.
- Foreign currency accounts have statutory protection.
- Zakat deducted at source unless exemption filed.

Key Terms

PLS account: Profit and loss sharing savings account.

Term deposit: A deposit locked for a fixed period at an agreed rate.

Roshan Digital Account: Remote account facility for overseas Pakistanis.

Example

- *A business keeps payroll in a current account; surplus cash goes to a 6-month term deposit for profit.*

Summary: Account types match customer needs: transaction convenience, profit earning, or fixed-term returns.

Exam Tips

- ★ Key point: compare current, savings, and term deposits.
- ★ Remember foreign currency account protection.

Topic 9: Banker's Duty of Secrecy

Learning Objectives

- State the duty of confidentiality
- List the exceptions to secrecy
- Explain consequences of breach

Key Concepts

The bank must keep the customer's account information confidential - the duty established in *Tournier v National Provincial Bank*. Disclosure without consent breaches the contract and can bring damages, even if the information was true.

Four exceptions permit disclosure: (1) compulsion of law - court orders, tax authorities, NAB/FIA investigations; (2) public duty - e.g. reporting suspected crime or money laundering; (3) the bank's own interest - suing the customer or defending itself; (4) the customer's express or implied consent - e.g. credit reference requests the customer authorized.

In practice, banks disclose to credit bureaus (e-CIB) under the customer's standing consent in the account terms, and report suspicious transactions to the Financial Monitoring Unit. Staff training and information barriers enforce secrecy day to day.

Key Points

- Banks must keep customer information confidential (*Tournier* case).
- Four exceptions: legal compulsion, public duty, bank's own interest, customer consent.
- Breach can lead to damages even for true disclosures.

Key Terms

Duty of secrecy: The bank's obligation to keep customer affairs confidential.

Tournier v National Provincial Bank: The leading case on banker confidentiality.

e-CIB: SBP's electronic credit information bureau.

Example

- *A bank may disclose a customer's balance to the court under a judge's order - compulsion of law.*

Summary: Secrecy is a strict contractual duty with four narrow exceptions; modern compliance adds structured reporting duties.

Exam Tips

- ★ Very important: the four exceptions to secrecy.
- ★ Remember Tournier as the leading case.

Topic 10: Banker's Lien, Set-Off, and Appropriation

Learning Objectives

- Define banker's general lien
- Explain the right of set-off
- Describe appropriation of payments (Clayton's case)

Key Concepts

The banker's general lien lets the bank retain securities and valuables deposited with it until the customer's debts are paid - it covers the general balance due, unlike a particular lien tied to one transaction. It does not apply to safe-custody items or earmarked funds.

Set-off allows the bank to combine accounts: a credit balance in one account may be set against a debit in another, after notice, to satisfy what the customer owes. The accounts must be in the same right and currency (or convertible).

Appropriation of payments answers 'which debt does a payment reduce?' The debtor may appropriate at payment time; failing that, the creditor may; otherwise Clayton's case applies: payments are credited against the earliest debts first (first-in, first-out) in running accounts. This matters greatly when securities back only some advances.

Key Points

- General lien: retain customer's securities until debts are paid (not safe-custody items).
- Set-off: combine accounts to satisfy debts owed.
- Clayton's case: unappropriated payments reduce the earliest debts first.

Key Terms

Banker's lien: Right to retain securities until the general balance is paid.

Set-off: Combining accounts to net mutual debts.

Clayton's case: Rule: payments apply to earliest debts first.

Example

- *A customer's fixed deposit can be held under lien against his defaulted car loan.*

Summary: Lien, set-off, and appropriation rules protect the bank's recovery while ordering how payments apply.

Exam Tips

- ★ Very important: distinguish general lien from set-off.
- ★ Remember Clayton's case rule: first-in, first-out.

Unit 3: Negotiable Instruments: Cheques and Payments

Topic 11: Negotiable Instruments: Concepts

Learning Objectives

- Define negotiable instrument
- List essential features
- Identify the three main instruments

Key Concepts

A negotiable instrument is a written document that entitles the holder to a sum of money and is transferable by delivery or endorsement - the transferee takes it free of prior defects (holder in due course). Essential features: writing, unconditional promise or order, payment of money only, and transferability.

The Negotiable Instruments Act 1881 recognizes three: the promissory note (a promise by the maker to pay), the bill of exchange (an order by the drawer to the drawee to pay), and the cheque (a bill of exchange drawn on a banker, payable on demand).

Negotiation transfers title: bearer instruments pass by delivery; order instruments by endorsement plus delivery. A holder in due course - who takes for value, in good faith, before maturity - gets good title even if the transferor's title was defective.

Key Points

- Negotiable instruments transfer money claims free of prior defects.
- Three types: promissory note, bill of exchange, cheque.
- Holder in due course takes good title despite transferor defects.

Key Terms

Negotiable instrument: A transferable written money claim.

Holder in due course: One who takes for value, in good faith, before maturity.

Negotiation: Transfer of an instrument by delivery/endorsement.

Example

- *A cheque endorsed to a supplier who accepts it in good faith gives him enforceable rights.*

Summary: Negotiability makes commercial paper circulate like money by protecting good-faith transferees.

Exam Tips

- ★ Very important: features of negotiable instruments and holder in due course.
- ★ Remember the three instruments and their definitions.

Topic 12: Cheques: Essentials and Types

Learning Objectives

- State the legal essentials of a cheque
- Describe types of cheques
- Explain crossing and its effects

Key Concepts

A cheque must: be in writing, contain an unconditional order, be drawn on a specified banker, be payable on demand, state a certain sum, and bear the drawer's signature. Post-dated cheques are valid

instruments but not payable before their date; stale cheques (over 6 months old) banks normally refuse.

Types: bearer cheques (payable to whoever holds), order cheques (payable to the named payee or endorsee), open/un Crossed cheques (cashable over the counter), and crossed cheques (must be paid into an account). Crossing comes in general (two parallel lines - pay into any account) and special (named bank - pay only through that bank); 'not negotiable' crossing warns transferees that title is limited.

Marking/certification, bank drafts, and pay orders are banker-issued payment instruments where the bank itself is liable - safer for large transactions.

Key Points

- Cheque essentials: written, unconditional order on a banker, payable on demand, certain sum, signed.
- Crossing forces payment through an account: general vs. special crossing.
- Bank drafts/pay orders carry the bank's own liability.

Key Terms

Crossing: Lines directing payment through a bank account, not cash.

Stale cheque: A cheque over 6 months old, normally refused.

Bank draft: A bank's own order to pay, bought by customers.

Example

- *A crossed cheque stolen and cashed over the counter exposes the paying bank to liability.*

Summary: Cheque law balances convenient payment with fraud protection through crossing and presentment rules.

Exam Tips

- ★ Very important: cheque essentials and crossing types.
- ★ Remember stale-cheque (6 months) and post-dated rules.

Topic 13: Duties in Paying and Collecting Cheques

Learning Objectives

- Explain the bank's duty to honor cheques
- List when a bank must refuse payment
- Describe the collecting banker's protections

Key Concepts

The paying bank must honor its customer's properly drawn cheques when funds are available; wrongful dishonor breaches the contract and can bring damages for injured credit reputation. The bank must verify the signature, check the date and amount in words and figures, and confirm no stop-payment or legal bar exists.

The bank must refuse payment when: funds are insufficient, the cheque is post-dated or stale, a stop-payment order is in force, the customer is deceased or insolvent (with notice), a garnishee order attaches the account, or forgery is suspected. Paying a forged cheque generally leaves the loss on the bank, unless the customer's negligence caused it.

A collecting banker (receiving cheques for a customer's account) gets statutory protection if it acts in good faith and without negligence - e.g. collecting a crossed cheque for a proper customer. Negligence, like opening an account without verification for a fraudster, destroys the protection.

Key Points

- Paying bank must honor valid cheques; wrongful dishonor brings liability.
- Must refuse: insufficient funds, stop payment, stale/post-dated, garnishee, death/insolvency notice.
- Collecting banker protected when acting in good faith without negligence.

Key Terms

Wrongful dishonor: Refusing a cheque that should have been paid.

Stop-payment order: Customer's instruction not to pay a cheque.

Garnishee order: Court order attaching funds for a creditor.

Example

- *A bank paying a cheque with an obviously forged signature bears the loss.*

Summary: Payment law allocates forgery and error risks between bank and customer based on care and mandate compliance.

Exam Tips

- ★ Very important: grounds for refusing payment.
- ★ Remember the collecting banker's good-faith protection.

Topic 14: Dishonor of Cheques: Civil and Criminal Liability

Learning Objectives

- Explain civil liability on dishonor
- Describe criminal liability under Section 489-F PPC
- Outline the legal process after dishonor

Key Concepts

Civilly, the drawer is liable to the holder for the cheque amount on dishonor; the holder can also claim the underlying debt. Banks face liability for wrongful dishonor.

Criminally, Section 489-F of the Pakistan Penal Code punishes issuing a cheque that is dishonored on presentation: whoever issues a cheque towards repayment of a loan or fulfillment of an obligation, knowing it will be dishonored, commits an offense punishable with imprisonment up to 3 years and/or fine. The prosecution must prove the cheque was for a loan/obligation and dishonor was within the drawer's knowledge or contemplation.

Process: the holder presents the cheque, obtains the bank's dishonor memo, serves legal notice demanding payment (usually 30 days), and then files a complaint. Because 489-F is heavily used, courts insist on strict proof of the underlying obligation - cheques given as security or guarantee need careful handling.

Key Points

- Civil: drawer liable for the amount; bank liable for wrongful dishonor.
- 489-F PPC: dishonored cheque for a loan/obligation is punishable (up to 3 years).

- Process: present, get memo, serve notice, file complaint.

Key Terms

Dishonor: Refusal by the drawee bank to pay.

Section 489-F PPC: Criminal offense of issuing a cheque known to be dishonorable.

Dishonor memo: The bank's written reason for refusing payment.

Example

- *A borrower issuing a cheque for loan repayment that bounces faces both civil suit and 489-F prosecution.*

Summary: Cheque dishonor triggers civil recovery and, for loan-related cheques, criminal liability under 489-F.

Exam Tips

- ★ Very important: elements of the 489-F offense.
- ★ Remember the notice requirement before prosecution.

Topic 15: Electronic Fund Transfers and Digital Payments

Learning Objectives

- Describe electronic payment systems in Pakistan
- Explain the legal framework (EFT Act 2007, ETO 2002)
- Discuss digital banking risks

Key Concepts

Electronic transfers move money without paper: IBFT (inter-bank funds transfer), RTGS (PRISM - large-value real-time settlement), ATMs, POS terminals, internet and mobile banking, and Raast - SBP's instant payment system for fast, low-cost transfers using account numbers or Raast IDs.

The Payment Systems and Electronic Fund Transfers Act 2007 empowers SBP to regulate payment systems and e-transfers, covering authorization, error resolution, and operator duties. The Electronic Transactions Ordinance 2002 gives legal validity to electronic records and digital signatures.

Risks are phishing, SIM-swap fraud, and unauthorized transfers; SBP's consumer protection rules require banks to verify transactions, set OTP-based authentication, and compensate customers for proven system-side fraud. Digital banks and EMIs (electronic money institutions) now operate under dedicated SBP frameworks.

Key Points

- Systems: IBFT, PRISM/RTGS, ATMs, mobile banking, Raast instant payments.
- EFT Act 2007 regulates payment systems; ETO 2002 validates e-records.
- Banks must authenticate transactions and handle fraud complaints.

Key Terms

Raast: SBP's instant payment system for low-cost transfers.

RTGS: Real-time gross settlement for large-value transfers.

EMI: Electronic money institution issuing e-money wallets.

Example

- A customer sends Rs. 10,000 instantly via Raast ID instead of writing a cheque.

Summary: Electronic payments are legally recognized and SBP-regulated, with growing instant-payment infrastructure.

Exam Tips

- ★ Key point: EFT Act 2007 and ETO 2002 roles.
- ★ Remember Raast as SBP's instant payment system.

Unit 4: Bank Lending and Securities

Topic 16: Principles of Sound Lending

Learning Objectives

- List the canons of good lending
- Explain the 5Cs of credit
- Describe SBP prudential limits

Key Concepts

Sound lending follows canons: safety (reasonable certainty of repayment), liquidity (loans repayable or realizable), profitability (adequate return), purpose (productive, lawful use), and diversification (not overexposed to one borrower or sector).

The 5Cs assess borrowers: Character (integrity, repayment history), Capacity (cash flows to service debt), Capital (own stake in the venture), Collateral (security offered), and Conditions (economic and industry outlook). Banks verify through financial statements, credit reports (e-CIB), and site visits.

SBP prudential regulations cap exposures: per-party limits, aggregate large exposures, related-party lending restrictions, and classification/provisioning rules forcing banks to recognize and provide against non-performing loans. Regulated sectors (SME, agriculture, housing) carry mandatory or incentivized targets.

Key Points

- Canons: safety, liquidity, profitability, purpose, diversification.
- 5Cs: Character, Capacity, Capital, Collateral, Conditions.
- SBP caps exposures and enforces NPL provisioning.

Key Terms

5Cs of credit: Character, Capacity, Capital, Collateral, Conditions.

NPL: Non-performing loan: overdue beyond thresholds.

Provisioning: Setting aside profits against expected loan losses.

Example

- A bank rejects a profitable project because the borrower's e-CIB shows defaults - character fails.

Summary: Prudent lending combines borrower analysis (5Cs) with portfolio discipline enforced by SBP regulations.

Exam Tips

- ★ Very important: the 5Cs with brief meanings.

- ★ Remember the lending canons.

Topic 17: Types of Advances and Credit Facilities

Learning Objectives

- Distinguish loans, overdrafts, and cash credit
- Explain running finance and term finance
- Describe consumer and SME financing

Key Concepts

A loan (term finance) is a fixed amount disbursed once, repayable in installments over years - used for machinery or housing. An overdraft lets a current-account holder withdraw beyond the balance up to a limit, with interest on the daily utilized amount - ideal for working capital. Cash credit/running finance is a revolving limit against stock or receivables, reviewed annually.

Demand finance is repayable on the bank's demand; bridge finance covers short gaps. Consumer financing includes auto loans, personal loans, and credit cards - small, many borrowers, scored statistically. SME financing targets small businesses under SBP's SME regulations with simplified assessment.

Each facility's documentation - demand promissory note, letter of continuity, mark-up agreements - must be executed correctly; defective documentation has lost banks many recovery suits.

Key Points

- Term finance: fixed, installment-based; Overdraft: flexible, on current accounts; Running finance: revolving working-capital limit.
- Consumer finance: auto, personal, cards; SME finance under dedicated SBP rules.
- Proper documentation is essential for recovery.

Key Terms

Overdraft: Permission to withdraw beyond the credit balance up to a limit.

Running finance: Revolving credit against current assets.

Demand promissory note: Unconditional promise to pay on the bank's demand.

Example

- A trader uses running finance against pledged inventory to fund seasonal stock.

Summary: Facilities match borrowing needs: long-term loans, flexible overdrafts, revolving working capital, and retail products.

Exam Tips

- ★ Key point: differences between loan, overdraft, and running finance.
- ★ Remember documentation's role in recovery.

Topic 18: Securities for Advances: Mortgage and Hypothecation

Learning Objectives

- Define mortgage, hypothecation, pledge, and lien
- Explain legal vs. equitable mortgage
- Describe enforcement procedures

Key Concepts

Security gives the bank recourse beyond the borrower's promise. A mortgage transfers an interest in immovable property as security; a legal (registered) mortgage is created by registered deed, while an equitable mortgage arises from depositing title deeds with intent to create security - simpler and common in Pakistan.

Hypothecation charges movable goods (stock, machinery) while the borrower keeps possession - the bank's charge is registered and the borrower cannot sell without permission. A pledge gives the bank actual possession of goods (e.g. pledged inventory in a muccadam's godown). Assignment transfers receivables or policies to the bank.

Enforcement: the Financial Institutions (Recovery of Finances) Ordinance 2001 lets banks sue in Banking Courts for decrees and auction mortgaged property; mortgages can also be enforced through foreclosure suits. Defective title or unregistered charges defeat recovery - hence legal opinions and charge registration matter.

Key Points

- Mortgage: immovable property (legal = registered deed; equitable = title-deed deposit).
- Hypothecation: movables, borrower keeps possession; Pledge: bank takes possession.
- Recovery through Banking Courts under the 2001 Ordinance; auction of mortgaged property.

Key Terms

Mortgage: Security interest in immovable property.

Hypothecation: Charge on movables with possession retained by borrower.

Pledge: Security with possession delivered to the lender.

Foreclosure: Court process extinguishing the mortgagor's rights.

Example

- *A factory's machinery is hypothecated: its building is equitably mortgaged by depositing title deeds.*

Summary: Different securities suit different assets; proper creation and registration decide whether the bank can actually enforce them.

Exam Tips

- ★ Very important: mortgage vs. hypothecation vs. pledge.
- ★ Remember equitable mortgage by title-deed deposit.

Topic 19: Guarantees and Indemnities

Learning Objectives

- Define contract of guarantee
- Explain the surety's rights
- Distinguish guarantee from indemnity

Key Concepts

A guarantee is a promise to pay if the principal borrower defaults - three parties: creditor (bank), principal debtor, and surety. The bank typically takes continuing guarantees covering running balances, plus personal guarantees of directors for company borrowings.

The surety's liability is co-extensive with the principal debtor's unless the contract limits it; the bank can sue the surety without first exhausting remedies against the borrower. The surety has rights: against the principal debtor (reimbursement), against co-sureties (contribution), and to the bank's securities on payment (subrogation).

An indemnity is a direct promise to cover loss (two parties), independent of another's default - e.g. indemnifying the bank for issuing a duplicate draft. Letters of comfort are weaker, non-binding assurances. Guarantee documentation must be carefully worded: continuing, covering all facilities, and surviving the borrower's death or insolvency where intended.

Key Points

- Guarantee: surety pays if the borrower defaults; liability co-extensive with borrower's.
- Surety's rights: reimbursement, contribution, subrogation to securities.
- Indemnity is a direct two-party loss promise; letters of comfort are non-binding.

Key Terms

Surety: One who guarantees another's obligation.

Subrogation: Surety stepping into the creditor's rights after paying.

Continuing guarantee: Covering a running series of transactions.

Example

- *Directors personally guarantee their company's Rs. 50 million running finance facility.*

Summary: Guarantees multiply recovery sources; precise drafting decides their true scope.

Exam Tips

- ★ Key point: guarantee (three parties) vs. indemnity (two parties).
- ★ Remember the surety's three rights.

Topic 20: Letters of Credit in International Trade

Learning Objectives

- Explain how documentary credits work
- List parties and types of LCs
- Describe bank's duties and the fraud exception

Key Concepts

A letter of credit (LC) is a bank's undertaking to pay the seller if compliant shipping documents are presented - it substitutes the bank's credit for the buyer's, enabling international trade. Parties: applicant (buyer), issuing bank, beneficiary (seller), and often advising/confirming banks.

The independence principle is crucial: the bank deals in documents, not goods - it pays against complying documents even if the buyer disputes quality. Types: revocable vs. irrevocable (almost all are irrevocable), confirmed (a second bank adds its undertaking), sight vs. usance (deferred payment), transferable, back-to-back, and standby LCs (guarantee-like).

Banks must examine documents with reasonable care under UCP 600 (the ICC's uniform rules incorporated into LCs). The fraud exception: courts can stop payment for proven fraud in the documents. SBP's foreign exchange regulations govern LC opening, margins, and reporting.

Key Points

- LC: bank pays seller against compliant documents; independence principle (documents, not goods).
- Types: irrevocable, confirmed, sight/usance, transferable, standby.
- UCP 600 governs; fraud exception allows court intervention.

Key Terms

Letter of credit: A bank's undertaking to pay against compliant documents.

UCP 600: ICC uniform customs and practice for documentary credits.

Confirming bank: A bank adding its own payment undertaking.

Example

- *A Karachi importer opens an LC; the Chinese exporter's bank pays on presenting bill of lading and invoice.*

Summary: LCs make cross-border trade safe by interposing bank undertakings governed by UCP 600.

Exam Tips

- ★ Very important: the independence principle.
- ★ Remember LC types and parties.

Unit 5: Special Banking Laws and Services

Topic 21: Anti-Money Laundering Law

Learning Objectives

- Define money laundering and its stages
- Outline duties under the AML Act 2010
- Explain STR reporting

Key Concepts

Money laundering disguises criminal proceeds as legitimate funds through three stages: placement (introducing cash into the system), layering (complex transfers obscuring origin), and integration (using funds as apparently clean money). Terrorist financing moves funds toward crimes.

The Anti-Money Laundering Act 2010 criminalizes laundering and empowers the Financial Monitoring Unit (FMU). Banks must: conduct CDD/KYC, monitor transactions, keep records for prescribed periods, appoint compliance officers, train staff, and file Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) with the FMU. Tipping off the customer about an STR is itself an offense.

SBP's AML/CFT regulations operationalize these duties with risk-based controls; violations bring heavy penalties and reputational damage. Correspondent banks now demand strong AML controls before maintaining relationships.

Key Points

- Stages: placement, layering, integration.
- Bank duties: KYC, monitoring, record-keeping, STR/CTR reporting to FMU.
- Tipping off is an offense; violations bring penalties.

Key Terms

Money laundering: Disguising criminal proceeds as legitimate funds.

STR: Suspicious Transaction Report to the FMU.

FMU: Financial Monitoring Unit receiving AML reports.

Example

- *Unusual large cash deposits inconsistent with a customer's profile trigger an STR.*

Summary: AML law makes banks frontline defenders against financial crime through detection and reporting duties.

Exam Tips

- ★ Very important: the three stages and STR reporting.
- ★ Remember tipping-off is prohibited.

Topic 22: Islamic Banking Law and Practice

Learning Objectives

- Explain the Shariah basis of Islamic banking
- Describe major Islamic modes of finance
- Outline SBP's Shariah governance framework

Key Concepts

Islamic banking conducts finance without *riba* (interest), *gharar* (excessive uncertainty), or investment in prohibited sectors. In Pakistan it operates under the Banking Companies Ordinance as amended, SBP's Shariah governance framework, and rulings of SBP's Shariah Board.

Major modes: *Murabaha* (cost-plus sale - bank buys and resells at a disclosed markup), *Ijarah* (leasing), *Salam* (advance payment for future delivery, used in agriculture), *Istisna* (manufacturing/construction finance), *Musharaka* (partnership with profit-loss sharing), and *Mudaraba* (trustee partnership - bank provides capital, client manages).

Each bank has a Shariah board and internal Shariah compliance; SBP's framework requires Shariah audits and profit-distribution rules. Islamic windows of conventional banks also operate under these rules. Disputes go to the same courts, applying the agreed Shariah-compliant contracts.

Key Points

- Prohibitions: *riba*, *gharar*, haram sectors.
- Modes: *Murabaha*, *Ijarah*, *Salam*, *Istisna*, *Musharaka*, *Mudaraba*.
- SBP Shariah governance: boards, audits, compliance.

Key Terms

Riba: Interest/usury, prohibited in Islamic finance.

Murabaha: Cost-plus sale with disclosed markup.

Ijarah: Islamic leasing.

Musharaka: Partnership with shared profit and loss.

Example

- *A bank buys a car and sells it to the customer at cost plus agreed markup on installments - Murabaha.*

Summary: Islamic banking replaces interest with trade and partnership contracts under SBP Shariah supervision.

Exam Tips

- ★ Very important: define the six modes with one line each.
- ★ Remember riba and gharar prohibitions.

Topic 23: Banker as Agent: Agency Services

Learning Objectives

- List agency services banks provide
- Explain safe custody and lockers
- Describe standing instructions and remittances

Key Concepts

As agent, the bank performs services for customers: collecting cheques and bills, paying insurance premiums and utilities under standing instructions, purchasing/selling securities, acting as executor/trustee, and providing remittance facilities (demand drafts, telegraphic transfers, now electronic).

Safe custody: the bank as bailee keeps documents and valuables, liable for negligence but not as an insurer. Lockers (safe deposit vaults) create a licensor-licensee relationship - the bank does not know the contents and liability for loss is limited by contract, though courts have awarded damages for proved negligence.

Standing instructions automate recurring payments; the bank must follow them exactly and is liable for errors. Remittance services move funds domestically and internationally, now dominated by instant electronic transfers under SBP oversight.

Key Points

- Agency services: collections, standing instructions, securities dealing, remittances, trustee roles.
- Safe custody = bailment; lockers = license with limited liability.
- Standing instructions must be executed exactly.

Key Terms

Standing instruction: Ongoing order to make regular payments.

Bailment: Delivery of goods for a purpose, with return duty.

Remittance: Transfer of funds from one place/person to another.

Example

- A customer's monthly electricity bill is auto-paid under standing instructions.

Summary: Agency services extend the bank beyond deposits and loans into daily financial management.

Exam Tips

- ★ Key point: safe custody vs. locker liability.
- ★ Remember examples of agency services.

Topic 24: Consumer Protection in Banking

Learning Objectives

- Describe SBP's consumer protection framework
- Explain complaint handling requirements
- List fair-treatment principles

Key Concepts

SBP's consumer protection framework requires banks to treat customers fairly: clear, honest disclosure of charges, profit rates, and terms before sale; no hidden fees; responsible selling without mis-selling; and accessible complaint mechanisms.

Banks must display service charges, resolve complaints within set timelines, and maintain complaint management systems reporting to SBP. Key focus areas: unauthorized transactions (banks must investigate and compensate for system failures), transparent foreign-exchange dealings, and fair debt-collection practices - no harassment of borrowers.

Customers can escalate to SBP's Banking Mohtasib (ombudsman) free of charge. SBP also runs financial literacy programs, recognizing that informed customers are the best protection.

Key Points

- Fair treatment: disclosure, no hidden charges, no mis-selling, complaint systems.
- Banks liable for unauthorized transactions from system failures.
- Escalation path: bank complaint -> Banking Mohtasib -> SBP.

Key Terms

Mis-selling: Selling unsuitable products through misleading information.

Banking Mohtasib: The banking ombudsman resolving customer complaints.

Financial literacy: Customer education on financial products.

Example

- *A customer charged an undisclosed fee gets it reversed after complaining to the Mohtasib.*

Summary: Consumer protection combines bank-level fairness duties with free ombudsman redress.

Exam Tips

- ★ Key point: the complaint escalation path.
- ★ Remember disclosure and mis-selling rules.

Topic 25: Banking Courts and the Ombudsman

Learning Objectives

- Explain Banking Courts' jurisdiction
- Describe recovery suits under the 2001 Ordinance
- Explain the Banking Mohtasib's role

Key Concepts

Banking Courts, established under the Financial Institutions (Recovery of Finances) Ordinance 2001, exclusively hear banks' suits for recovery of financed amounts. Procedure is streamlined: the bank files with documents, the defendant needs leave to defend, and decrees can order sale of mortgaged property. Appeals go to the High Court.

The Ordinance also criminalizes dishonest borrowers' obstruction and lets SBP penalize willful defaulters. Execution of decrees follows civil procedure with auction of securities.

The Banking Mohtasib (established 2005) handles customer complaints against banks - delays, overcharging, misbehavior - free and fast, with powers to award compensation. The Mohtasib cannot hear matters pending in courts or involving bank policy. Together, courts and ombudsman give both banks and customers specialized forums.

Key Points

- Banking Courts hear recovery suits under the 2001 Ordinance with streamlined procedure.
- Decrees can auction mortgaged property; appeals to High Court.
- Banking Mohtasib resolves customer complaints free and quickly.

Key Terms

Banking Court: Special court for financial institutions' recovery suits.

Leave to defend: Defendant's required permission to contest the suit.

Banking Mohtasib: Ombudsman for bank-customer disputes.

Example

- A bank recovers a defaulted Rs. 20 million loan through a Banking Court decree auctioning the mortgaged factory.

Summary: Specialized forums - Banking Courts for recovery, Mohtasib for complaints - speed up banking justice.

Exam Tips

- ★ Very important: jurisdiction difference between Banking Court and Mohtasib.
- ★ Remember the 2001 Ordinance's streamlined procedure.

Unit 6: Regulatory Compliance and Emerging Issues

Topic 26: Corporate Governance in Banks

Learning Objectives

- Explain SBP's corporate governance rules
- Describe board and management responsibilities
- Discuss fit-and-proper criteria

Key Concepts

SBP's Corporate Governance Regulatory Framework requires banks to have competent, independent boards overseeing strategy and risk. Boards must include independent directors, form audit, risk, HR, and compliance committees, and evaluate their own performance.

Key functionaries - CEO, CFO, compliance head, internal audit head - need SBP's fit-and-proper clearance: integrity, competence, and no disqualifying history. Related-party transactions need board approval and disclosure to prevent insider abuse.

Internal control has three lines: business units owning risks, risk/compliance functions overseeing, and independent internal audit reporting to the board's audit committee. SBP inspections test governance; failures bring penalties or management changes.

Key Points

- Boards need independent directors and committees (audit, risk, compliance).
- Fit-and-proper clearance required for key executives.
- Three lines of defense: business, risk/compliance, internal audit.

Key Terms

Corporate governance: The system directing and controlling a bank.

Independent director: A board member free of management ties.

Fit and proper: SBP's integrity/competence test for bankers.

Example

- *A CEO appointment takes effect only after SBP's fit-and-proper clearance.*

Summary: Governance rules ensure banks are run by competent, supervised, and accountable leadership.

Exam Tips

- ★ Key point: the three lines of defense.
- ★ Remember fit-and-proper and independent directors.

Topic 27: Risk Management: Credit, Market, Operational Risk

Learning Objectives

- Define major banking risks
- Explain Basel capital adequacy
- Describe risk management structures

Key Concepts

Banks face credit risk (borrowers defaulting), market risk (interest-rate, currency, and price movements), operational risk (fraud, system failures, human error), and liquidity risk (inability to meet withdrawals).

Basel accords (implemented by SBP) require banks to hold minimum capital against risk-weighted assets - the Capital Adequacy Ratio (CAR), currently 10% plus buffers in Pakistan. Higher-risk loans need more capital backing, disciplining lending.

Risk management structure: board-approved risk appetite, independent risk management departments, credit risk ratings for borrowers, market-risk limits for treasury, operational-risk incident reporting, and stress testing. SBP's inspections verify these systems; weak risk management draws enforcement action.

Key Points

- Risks: credit, market, operational, liquidity.
- Basel CAR: minimum capital against risk-weighted assets (~10%+).
- Structure: risk appetite, independent risk function, limits, stress tests.

Key Terms

Capital Adequacy Ratio: Capital as a percentage of risk-weighted assets.

Risk-weighted assets: Assets adjusted by their riskiness.

Stress testing: Modeling extreme scenarios' impact on the bank.

Example

- *A bank holds extra capital against its high-risk consumer loan portfolio per Basel rules.*

Summary: Capital rules and risk systems keep banks solvent through economic shocks.

Exam Tips

- ★ Very important: the four risk types and what CAR means.
- ★ Remember Basel's purpose: capital against risk.

Topic 28: Digital Banking Regulation and Fintech

Learning Objectives

- Describe SBP's digital banking framework
- Explain EMI and branchless banking rules
- Discuss regulatory sandboxes

Key Concepts

SBP licenses digital banks (branchless, technology-led banks) under a dedicated framework requiring robust IT systems, cyber-security, and financial-inclusion plans. EMIs issue e-money wallets under the EMI Regulations with safeguarding of customer funds.

Branchless banking regulations let banks and telecoms offer agent-based services (JazzCash, EasyPaisa) with tiered KYC - simplified for small accounts. Raast enables instant low-cost payments across providers.

SBP's regulatory sandbox lets fintechs test innovations with limited customers under supervision before full licensing. Data protection, cyber-security frameworks, and outsourcing rules govern technology risks. The direction is open banking and digital onboarding (e-KYC), expanding access while controlling new risks.

Key Points

- Digital banks and EMIs licensed under dedicated SBP frameworks.
- Branchless banking: agent networks with tiered KYC.
- Regulatory sandbox allows supervised fintech experimentation.

Key Terms

Digital bank: A branchless bank operating primarily through technology.

Regulatory sandbox: Supervised testing space for fintech innovations.

e-KYC: Electronic identity verification for remote onboarding.

Example

- *A farmer opens a mobile wallet with just a CNIC number under simplified KYC.*

Summary: Regulation is racing to enable fintech innovation while safeguarding customers and stability.

Exam Tips

- ★ Key point: EMI vs. digital bank vs. branchless banking.
- ★ Remember the sandbox concept.

Topic 29: Bank Mergers, Acquisitions, and Winding Up

Learning Objectives

- Explain bank merger procedures
- Describe SBP's resolution powers
- Outline depositor protection

Key Concepts

Bank mergers need SBP sanction under the Banking Companies Ordinance: schemes of amalgamation protect depositors and require shareholder and court approvals. Mergers consolidate weak banks and build scale.

If a bank fails, SBP can impose moratoriums, supersede the board, arrange mergers, or apply for winding up. The Deposit Protection Corporation (established under the Deposit Protection Corporation Act 2016) guarantees eligible deposits up to the coverage limit (currently Rs. 500,000 per depositor per bank), paying out quickly if a bank is wound up.

Winding-up follows court-supervised liquidation with depositor preference. SBP's prompt corrective action framework intervenes early - restricting dividends, lending, or branching - when capital or asset quality deteriorates, aiming to fix banks before failure.

Key Points

- Mergers need SBP sanction; schemes protect depositors.
- Deposit Protection Corporation covers deposits up to Rs. 500,000 per depositor per bank.
- SBP can impose moratoriums, replace management, or wind up failing banks.

Key Terms

Amalgamation: Merger of banks under a court/SBP-approved scheme.

Moratorium: Temporary freeze on a bank's payments ordered by SBP.

Deposit protection: Guarantee scheme paying depositors of failed banks.

Example

- *When a small bank weakened, SBP arranged its merger into a larger bank, protecting all depositors.*

Summary: Resolution tools - mergers, moratoriums, deposit insurance - protect depositors and system stability.

Exam Tips

- ★ Very important: the Rs. 500,000 deposit protection limit.
- ★ Remember SBP's resolution powers.

Topic 30: Ethics, Financial Inclusion, and the Future

Learning Objectives

- Discuss ethics in banking practice
- Explain financial inclusion initiatives
- Identify future trends

Key Concepts

Banking ethics means honest advice, fair charges, responsible lending (not over-indebting borrowers), confidentiality, and avoiding conflicts of interest. SBP's conduct rules and the bankers' professional codes enforce these; scandals destroy the trust banking depends on.

Financial inclusion brings the unbanked into the system: Asaan accounts, branchless banking, microfinance, Roshan Digital Accounts, and SBP's Banking on Equality and inclusion targets for women and SMEs. Inclusion drives economic growth and reduces poverty.

Future trends: AI-driven credit scoring and service, blockchain-based trade finance, central bank digital currency (SBP studying a digital rupee), open banking APIs, green/sustainable finance, and continued consolidation. Bankers must keep learning as law and technology evolve together.

Key Points

- Ethics: honesty, fair charges, responsible lending, confidentiality.
- Inclusion tools: Asaan accounts, branchless banking, microfinance, RDA.
- Future: AI, digital currency, open banking, green finance.

Key Terms

Financial inclusion: Access to useful financial services for all.

Responsible lending: Lending without over-indebting borrowers.

Green finance: Funding environmentally sustainable activities.

Example

- *SBP's inclusion targets pushed banks to open millions of Asaan accounts for first-time users.*

Summary: Banking's future pairs ethical, inclusive practice with rapid technological change.

Exam Tips

- ★ Key point: inclusion initiatives with examples.
- ★ Remember ethics as the foundation of banking trust.

Glossary of Key Terms

Banking Companies Ordinance 1962: The core statute governing banks in Pakistan.

SBP Act 1956: The statute establishing the State Bank of Pakistan.

KYC: Know Your Customer: identity verification and risk assessment duties.

Negotiable instrument: A transferable written promise/order to pay money.

Holder in due course: A good-faith transferee for value taking free of defects.

Crossing: Cheque markings requiring payment through a bank account.

Section 489-F PPC: Criminal offense of issuing a cheque known to be dishonored.

Lien: The banker's right to retain securities until debts are paid.

Set-off: Combining a customer's accounts to satisfy mutual debts.

Clayton's case: Rule applying unappropriated payments to earliest debts first.

5Cs of credit: Character, Capacity, Capital, Collateral, Conditions.

Mortgage: Security interest in immovable property.

Hypothecation: Charge on movables while borrower keeps possession.

Letter of credit: A bank's undertaking to pay against compliant documents.

UCP 600: ICC uniform rules for documentary credits.

Murabaha: Islamic cost-plus sale financing.

Mudaraba: Islamic trustee partnership financing.

AML Act 2010: Pakistan's anti-money laundering statute.

Banking Mohtasib: The ombudsman for bank-customer complaints.

CAR: Capital Adequacy Ratio: capital against risk-weighted assets.