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BNK601 Quiz File

Chapter-wise Solved MCQs

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Lesson 1: Course Management

1. What is one of the primary objectives of the BNK601 course?

- A) To train students in graphic design
- B) To develop interpretational skills regarding prevalent banking laws in Pakistan
- C) To teach international diplomacy
- D) To offer chartered accountancy certification

2. Which topic is included under Module 1 of the course outline?

- A) Introduction to the legal system of Pakistan
- B) Letter of Credit UCP 600
- C) Prudential Regulations for SME Financing
- D) Agricultural lending procedures

3. What key services provided by financial institutions are highlighted under Module 2?

- A) Auditing, advertising, and marketing
- B) Risk sharing, liquidity, and information services
- C) Taxation, web hosting, and recruitment
- D) Real estate brokerage and property valuation

4. In addition to textbooks and reference books, in what form is reading material provided to students?

- A) Audio CDs
- B) Video cassettes
- C) Handouts
- D) Newspaper clippings

Answer Key

1. B — The course aims to develop students' interpretational skills and understanding of prevalent banking and ancillary laws in Pakistan
2. A — Module 1 covers Course Management, Introduction to the Legal System of Pakistan, and Introduction to Banking Laws
3. B — Module 2 details key services provided by financial institutions, specifically risk sharing, liquidity, and information services
4. C — Sufficient reading material is made available to students in the form of handouts alongside text and reference books

Lesson 2: Legal System of Pakistan

1. According to John Austin, how is law defined?

- A) A body of principles recognized by public tribunals
- B) The command of a sovereign containing a common rule of life obliging obedience
- C) A rule of conduct imposed and enforced by the sovereign
- D) A system of rights enforced by social censure

2. Which branch of jurisprudence analyzes the prevalent principles of law as they currently exist?

- A) Ethical jurisprudence
- B) Historical jurisprudence

- C) Analytical jurisprudence
- D) Philosophical jurisprudence

3. According to Salmond, formal sources of law comprise which of the following?

- A) Customs and agreements
- B) Statutes and decisions of the courts
- C) Historical documents and textbooks
- D) Foreign treaties and conventions

4. Under the Constitution of Pakistan, how long does an Ordinance promulgated by the President remain valid if not presented or passed by Parliament?

- A) 60 days
- B) 90 days
- C) 120 days
- D) 180 days

Answer Key

1. C — John Austin defined law as a rule of conduct imposed and enforced by the sovereign
2. C — Analytical jurisprudence analyzes prevalent legal principles as they exist in the present
3. B — Formal sources of law, according to Salmond, consist of statutes and court decisions
4. C — An Ordinance promulgated by the President automatically stands repealed after 120 days if it is not presented or passed by Parliament

Lesson 3: Financial System & Banking

1. In direct finance, how do borrowers obtain funds from lenders in financial markets?

- A) By depositing money in commercial banks
- B) By selling securities or bonds directly to lenders
- C) By obtaining loans through credit unions
- D) By applying for government grants

2. What term refers to splitting wealth into many different assets to reduce portfolio risk?

- A) Liquidity
- B) Asymmetric information
- C) Diversification
- D) Financial intermediation

3. What is asymmetric information in financial transactions?

- A) When lenders know more about the market than borrowers
- B) When borrowers possess information about their opportunities that they do not disclose to lenders
- C) When interest rates fluctuate unexpectedly
- D) When government regulations change mid-contract

4. Which market specifically deals in short-term debt instruments?

- A) Capital market
- B) Money market
- C) Equity market
- D) Real estate market

Answer Key

1. B — In direct finance, borrowers borrow funds directly from lenders in financial markets by selling securities or bonds
2. C — Diversification is the splitting of wealth across multiple assets to prevent severe fluctuations in a portfolio's value
3. B — Asymmetric information occurs when borrowers hold information about their opportunities or activities that they do not disclose to lenders
4. B — The money market is a financial market that deals exclusively in short-term debt instruments

Lesson 4: Financial Instruments & Banking Laws & Practices

1. Which money market instrument has a maturity of less than one year and virtually no default risk because it is backed by the government?

- A) Corporate bond
- B) Treasury bill (T-bill)
- C) Commercial paper
- D) Mortgage

2. Repurchase agreements (repos) are typically short-term loans with maturities of less than:

- A) Six months
- B) Two weeks
- C) One year
- D) Thirty days

3. What section of the Negotiable Instruments Act, 1881 defines a Bill of Exchange?

- A) Section 3
- B) Section 5
- C) Section 12
- D) Section 25

4. What are U.S. dollars deposited in foreign branches of U.S. banks or foreign banks outside the United States called?

- A) Federal funds
- B) Treasury notes
- C) Eurodollars
- D) Commercial drafts

Answer Key

1. B — Government Treasury bills (T-bills) are short-term debt obligations with maturities under one year and virtually zero default risk
2. B — Repurchase agreements are very short-term loans, typically having maturities of less than two weeks
3. B — Section 5 of the Negotiable Instruments Act, 1881 contains the legal definition of a bill of exchange
4. C — Eurodollars are U.S. dollar-denominated deposits kept in foreign branches of U.S. banks or foreign banks outside the U.S.

Lesson 5: Evolution of Banking

1. Which institution, founded in 1157, is recognized as the first public banking institution in Europe?

- A) Bank of England
- B) Bank of Amsterdam
- C) Bank of Venice
- D) Bank of Barcelona

2. In historical English banking, who were the precursors of modern bank-notes through their receipts issued for deposited cash and bullion?

- A) Merchant traders
- B) London goldsmiths
- C) Tax collectors
- D) Royal mint officers

3. In what year was the National Bank of Pakistan (NBP) established through an Ordinance?

- A) 1947
- B) 1948
- C) 1949
- D) 1956

4. What event in 1965 affected the 9 Indian banks operating in Pakistan?

- A) They were merged into NBP
- B) They were taken over by the Custodian of Enemy Property
- C) They were converted into cooperative banks
- D) Their licenses were cancelled by the World Bank

Answer Key

- 1. C — The Bank of Venice, founded in 1157, was the first public banking institution established in Europe
- 2. B — Receipts issued by London goldsmiths ("Goldsmith's Notes") became payable to bearer on demand and were the precursors of modern bank-notes
- 3. C — The National Bank of Pakistan was set up through an Ordinance promulgated on 19 November 1949
- 4. B — Following the 1965 Indo-Pak war, the 9 Indian banks operating in Pakistan were taken over by the Custodian of Enemy Property

Lesson 6: The Banks (Nationalization) Act, 1974

1. What was the effective commencing day of the Banks (Nationalization) Act, 1974?

- A) 14th August, 1973
- B) 1st January, 1974
- C) 30th June, 1974
- D) 1st December, 1975

2. Under Section 5 of the Banks (Nationalization) Act, 1974, who stands as the guarantor for the safety of all deposits in nationalized banks?

- A) State Bank of Pakistan
- B) Federal Government
- C) Provincial Governments
- D) International Monetary Fund

3. How was compensation provided to shareholders whose shares were transferred to the Federal Government under the Act?

- A) Direct cash payments in full
- B) Gold bullion certificates
- C) Federal Government bonds repayable within 15 years
- D) Shares in international central banks

4. What body was initially established under Section 9 of the Act to oversee nationalized banks before its dissolution in 1997?

- A) Banking Companies Commission
- B) Pakistan Banking Council
- C) Federal Advisory Board
- D) National Credit Control Authority

Answer Key

1. B — The commencing day defined in Section 3 of the Act is the 1st day of January, 1974
2. B — Section 5(4) explicitly states that the safety of all deposits in banks stands guaranteed by the Federal Government
3. C — Shareholders received compensation in the form of Federal Government bonds repayable at par within 15 years
4. B — The Pakistan Banking Council was established under Section 9 to oversee nationalized banks, later dissolved in 1997

Lesson 7: Banking Companies Ordinance, 1962

1. Which primary statute governs the legal framework of banking companies in Pakistan?

- A) Negotiable Instruments Act, 1881
- B) Banking Companies Ordinance, 1962
- C) State Bank of Pakistan Act, 1956
- D) Companies Ordinance, 1984

2. What is the maximum total period for which the Federal Government can extend the suspension of the Ordinance under Section 4?

- A) 60 days
- B) 6 months
- C) One year
- D) Two years

3. How many parts and sections comprise the structure of the Banking Companies Ordinance, 1962?

- A) 3 parts and 50 sections
- B) 5 parts and 94 sections
- C) 8 parts and 120 sections
- D) 10 parts and 150 sections

4. Under Section 6 of the Banking Companies Ordinance, 1962, what happens to a clause in a bank's Memorandum of Association that conflicts with the Ordinance?

- A) It remains valid for existing shareholders
- B) It becomes void to the extent of its repugnancy

- C) It is referred to the High Court for approval
- D) It requires an amendment fee paid to SBP

Answer Key

1. B — The law relating to banking companies in Pakistan is governed by the Banking Companies Ordinance, 1962
2. C — Under Section 4, the total period of suspension of the Ordinance's operation cannot exceed one year
3. B — The Banking Companies Ordinance, 1962 is divided into 5 parts comprising 94 sections
4. B — Section 6 specifies that any provision in a memorandum or articles repugnant to the Ordinance becomes void

Lesson 8: Banking Companies Ordinance, 1962

1. Under Section 5(b) of the Banking Companies Ordinance, 1962, how is "banking" defined?

- A) Accepting deposits of money from the public for lending or investment, withdrawable by cheque, draft, order or otherwise
- B) Printing paper currency and issuing government bonds
- C) Trading in foreign commodities on stock exchanges
- D) Providing insurance cover to corporate clients

2. According to Section 5(o) of the Ordinance, a person possesses a "substantial interest" in an undertaking if they hold at least what percentage of voting power?

- A) 10%
- B) 15%
- C) 20%
- D) 51%

3. Under Section 14 of the Ordinance, what is the required statutory proportion of subscribed capital relative to authorized capital for a banking company?

- A) Not less than one-fourth
- B) Not less than one-third
- C) Not less than one-half
- D) Equal to full authorized capital

4. Section 14 of the Banking Companies Ordinance mandates that the capital of a banking company incorporated in Pakistan must consist of which type of shares only?

- A) Preference shares
- B) Ordinary shares
- C) Deferred shares
- D) Redeemable debentures

Answer Key

1. A — "Banking" is defined as accepting public deposits for lending/investment, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise
2. C — Substantial interest is possessed if a person or family members hold shares carrying not less than 20% of voting power
3. C — Section 14 requires that subscribed capital must not be less than one-half of the authorized capital

4. B — Under Section 14(1)(ii), the capital of a banking company incorporated in Pakistan must consist of ordinary shares only

Lesson 9: Banking Companies Ordinance, 1962

1. Under Section 7 of the Banking Companies Ordinance, 1962, which of the following is EXCLUDED from the agency business a banking company may carry on?

- A) Clearing and forwarding of goods
- B) Acting as attorney on behalf of customers
- C) Business of a managing agent or treasurer of a company
- D) Giving receipts and discharges

2. Under Section 7 of the Ordinance, a banking company is permitted to act as a "Modaraba Company" under the provisions of which statute?

- A) Companies Ordinance, 1984
- B) Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980
- C) State Bank of Pakistan Act, 1956
- D) Banking Tribunals Ordinance, 1984

3. Under the Banking Tribunals Ordinance, 1984 (as referenced in Section 7), "Finance" includes non-interest facilities provided on the basis of which of the following?

- A) Participation in profit and loss, mark-up, hire-purchase, or lease
- B) Compound interest rates fixed by commercial banks
- C) Unconditional floating interest rates
- D) Arbitrary penalty charges

4. In the context of Letters of Credit discussed in Section 7, which bank adds its confirmation to a credit upon the issuing bank's authorization or request?

- A) Advising bank
- B) Confirming bank
- C) Negotiating bank
- D) Nominated bank

Answer Key

- 1. C — Section 7 permits agency business such as clearing and forwarding goods, but explicitly excludes the business of a managing agent or treasurer of a company
- 2. B — Section 7 allows banking companies to act as a Modaraba Company under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980
- 3. A — "Finance" under the 1984 Ordinance is defined to include non-interest modes such as participation in profit and loss, mark-up/mark-down, hire-purchase, and leasing
- 4. B — A confirming bank is defined as the bank that adds its confirmation to a credit upon the issuing bank's authorization or request

Lesson 10: Banking Companies Ordinance, 1962

1. Under Section 8 of the Banking Companies Ordinance, 1962, every company carrying on banking business in Pakistan must use which word or its derivatives as part of its name?

- A) Finance
- B) Bank

- C) Credit
- D) Trust

2. Section 9 of the Ordinance prohibits banking companies from directly or indirectly trading or dealing in goods. Which of the following is EXCLUDED from the definition of "goods" under this section?

- A) Agricultural produce
- B) Manufactured commodities
- C) Bullion, money, stocks, and shares
- D) Raw textiles

3. Under Section 10 of the Ordinance, what is the maximum initial statutory period allowed for a banking company to hold non-banking immovable assets acquired in satisfaction of claims?

- A) 3 years
- B) 5 years
- C) 7 years
- D) 10 years

4. Under Section 12 of the Ordinance, what requirement must a banking company meet before removing its business records or documents outside Pakistan?

- A) Registration with the Ministry of Commerce
- B) Prior permission in writing from the State Bank of Pakistan
- C) Approval of a two-thirds majority of shareholders in a general meeting
- D) Sanction from the High Court

Answer Key

1. B — Section 8 mandates that every company carrying on banking business in Pakistan shall use the word "bank" or any of its derivatives as part of its name
2. C — Section 9 specifies that "goods" means every kind of movable property, other than actionable claims, stocks, shares, money, bullion, and species
3. C — Section 10 provides that no banking company shall hold non-banking property for a period exceeding seven years from the date of acquisition
4. B — Section 12 strictly requires a banking company to obtain prior written permission from the State Bank of Pakistan before removing any records or documents outside Pakistan

Lesson 11: Banking Companies Ordinance, 1962

1. Under Section 14 of the Banking Companies Ordinance, 1962, what is the maximum percentage of total voting rights that any single shareholder (other than Federal or Provincial Governments) can exercise in a banking company?

- A) 2%
- B) 5%
- C) 10%
- D) 20%

2. Under Section 15-A of the Ordinance, how many directors can the State Bank of Pakistan appoint to the Board of a banking company?

- A) Not more than one
- B) Up to three

- C) Up to five
- D) A majority of the Board

3. Under Section 15-B of the Ordinance, what is the maximum consecutive period a director (other than the chief executive or SBP nominee) can hold office in a banking company?

- A) 3 years
- B) 5 years
- C) 6 years
- D) 9 years

4. According to Section 15-B, after vacating office due to completing the maximum consecutive tenure, how long must a director wait before becoming eligible for re-election to the same bank?

- A) One year
- B) Two years
- C) Three years
- D) Five years

Answer Key

1. B — Section 14(1)(iii) restricts the voting rights of any individual shareholder, except the Federal or Provincial Governments, to a maximum of 5% of total voting rights
2. A — Section 15-A empowers the State Bank of Pakistan to appoint not more than one person as a director of a banking company
3. C — Section 15-B specifies that a director of a banking company (other than the chief executive or SBP nominee) shall not hold office for more than six consecutive years
4. C — Section 15-B(2) states that a director vacating office after six consecutive years is not eligible for re-election until three years have elapsed

Lesson 12: Banking Companies Ordinance, 1962

1. Under Section 16 of the Banking Companies Ordinance, 1962, what is the maximum permissible rate for commission, brokerage, or discount on the sale of shares issued by a banking company?

- A) 1% of paid-up value
- B) 2.5% of paid-up value
- C) 5% of paid-up value
- D) 10% of paid-up value

2. Under Section 18 of the Ordinance, a floating charge created by a banking company on its assets or undertaking is invalid UNLESS:

- A) Approved by the Ministry of Finance
- B) Certified in writing by the State Bank as not being detrimental to depositors' interests
- C) Registered with the Registrar of Claims
- D) Confirmed by a two-thirds vote of debenture holders

3. Under Section 21 of the Ordinance, if a banking company's reserve fund plus share premium account is LESS than its paid-up capital, what minimum percentage of annual net profit must be transferred to the reserve fund before declaring dividends?

- A) 5%

- B) 10%
- C) 15%
- D) 20%

4. Under Section 22 of the Ordinance, non-scheduled banking companies must maintain a cash reserve equivalent to at least what percentages of their time and demand liabilities in Pakistan, respectively?

- A) 1% of time liabilities and 3% of demand liabilities
- B) 2% of time liabilities and 5% of demand liabilities
- C) 5% of time liabilities and 10% of demand liabilities
- D) 10% of time liabilities and 20% of demand liabilities

Answer Key

1. B — Section 16 restricts commission, brokerage, or discount on share sales to an aggregate not exceeding 2.5% of the paid-up value of the shares
2. B — Section 18 provides that floating charges are invalid unless certified in writing by the SBP as not detrimental to the interests of depositors
3. D — Section 21 requires a transfer of not less than 20% of annual balance of profit to the reserve fund when the fund together with share premium is less than paid-up capital
4. B — Section 22 mandates non-scheduled banks to maintain a cash reserve of at least 2% of time liabilities and 5% of demand liabilities in Pakistan

Lesson 13: Banking Companies Ordinance, 1962

1. Under Section 28 of the Banking Companies Ordinance, 1962, a banking company may open a temporary place of business without prior written SBP permission for a period not exceeding:

- A) 15 days
- B) One month
- C) Two months
- D) Three months

2. Under Section 30 of the Ordinance, the State Bank may prescribe the minimum percentage of assets a banking company must maintain in Pakistan, provided this percentage does NOT exceed:

- A) 50%
- B) 70%
- C) 85%
- D) 100%

3. Under Section 31 of the Ordinance, after how many years of inactivity or non-acknowledgment on a deposit or safe custody article must a bank initiate the unclaimed deposit process?

- A) 3 years
- B) 5 years
- C) 7 years
- D) 10 years

4. Under Section 31(13) of the Ordinance, unclaimed amounts or articles delivered to the SBP become the absolute property of the Government if no valid claim is submitted within what

timeframe after receipt by SBP?

- A) 6 months
- B) One year
- C) Three years
- D) Five years

Answer Key

1. B — Section 28 permits opening a temporary place of business for up to one month (e.g., for an exhibition or mela), provided intimation is given to SBP within one week
2. C — Section 30 states that the prescribed percentage of assets in Pakistan relative to time and demand liabilities shall not exceed 85%
3. D — Section 31 applies to debts, deposits, or safe custody articles where no transaction or acknowledgment has occurred for a period of ten years
4. B — Section 31(13) specifies that if no claim is preferred within one year following the year of receipt by the SBP, the property vests absolutely in the Provincial or Federal Government

Lesson 14: Banking Companies Ordinance, 1962**1. Under Section 35 of the Banking Companies Ordinance, 1962, what is the standard term of office for an auditor appointed to audit a banking company?**

- A) One year
- B) Two years
- C) Three years
- D) Five years

2. Under Section 36 of the Ordinance, within what timeframe following the close of the calendar year must a banking company submit its audited balance sheet and profit and loss account returns to the SBP?

- A) 30 days
- B) 60 days
- C) Three months
- D) Six months

3. Under Section 45 of the Ordinance, what is the maximum aggregate period for which the High Court can grant a stay order against proceedings for a banking company temporarily unable to meet its obligations?

- A) 30 days
- B) 90 days
- C) Six months
- D) One year

4. Under Section 49 of the Ordinance, which judicial authority has exclusive jurisdiction to order the winding up of a banking company in Pakistan?

- A) Banking Court
- B) Supreme Court of Pakistan
- C) High Court
- D) District Court

Answer Key

1. C — Section 35(1) provides that an auditor shall hold office for a period of three years and cannot be removed before expiration without SBP's prior approval
2. C — Section 36 requires accounts, balance sheet, and auditor's report to be furnished as returns to the SBP within three months of the close of the period
3. C — Section 45 specifies that the total period of a stay order granted by the High Court, including extensions, shall not exceed six months
4. C — Section 49 designates the High Court as the exclusive judicial forum empowered to order the winding up of a banking company

Lesson 15: Banking Companies Ordinance, 1962

1. Under Section 82-A of the Banking Companies Ordinance, 1962, who appoints the Banking Mohtasib (Ombudsman)?

- A) Prime Minister of Pakistan
- B) President of Pakistan in consultation with the Governor of the State Bank
- C) Chief Justice of Pakistan
- D) Board of Directors of the Pakistan Banking Council

2. Under Section 82-A(4) of the Ordinance, what is the tenure of office for the Banking Mohtasib?

- A) 3 years, with no extension or re-appointment permitted
- B) 3 years, renewable for one additional term
- C) 5 years, non-renewable
- D) 4 years, extendable by the Federal Government

3. Under Section 82-D of the Ordinance, if a complainant or bank is aggrieved by an order passed by the Banking Mohtasib, within how many days may an appeal be filed with the State Bank of Pakistan?

- A) 15 days
- B) 30 days
- C) 60 days
- D) 90 days

4. Under Rule 14 of the Banking Companies Rules, 1963, within what period from the end of the financial year must the audited balance sheet and P&L account be published in a newspaper?

- A) Three months
- B) Four months
- C) Six months
- D) One year

Answer Key

1. B — Section 82-A(1) specifies that the Banking Mohtasib shall be appointed by the President of Pakistan in consultation with the Governor of the State Bank of Pakistan
2. A — Section 82-A(4) states that the Banking Mohtasib shall hold office for a period of three years and is not eligible for any extension or re-appointment
3. B — Section 82-E(4) allows any bank or complainant aggrieved by an order of the Banking Mohtasib to file an appeal with the State Bank within thirty days

4. C — Rule 14 mandates that the audited balance sheet, profit and loss account, and auditor's report must be published in a newspaper within six months from the end of the period

Lesson 16: State Bank of Pakistan Act, 1956

1. Under Section 4 of the State Bank of Pakistan Act, 1956, what minimum proportion of the Bank's share capital must be held by the Federal Government?

- A) At least 25%
- B) At least 51%
- C) At least 75%
- D) 100%

2. Under Section 9 of the State Bank of Pakistan Act, 1956, who serves as the Chairman of the Central Board of Directors of the State Bank?

- A) Federal Finance Minister
- B) Secretary, Finance Division
- C) Governor of the State Bank
- D) Chairman of the Securities and Exchange Commission

3. Under Section 17(2)(b) of the SBP Act, 1956, what is the maximum maturity period for bills of exchange or promissory notes rediscounted by the SBP to finance seasonal agricultural operations?

- A) 90 days
- B) 180 days
- C) 12 months
- D) 15 months

4. Under Section 37 of the SBP Act, 1956, what is the statutory minimum threshold of paid-up capital and reserves required for a bank to be declared a scheduled bank?

- A) Rs 100,000
- B) Rs 500,000 (5 lakhs)
- C) Rs 1,000,000 (10 lakhs)
- D) Rs 5,000,000 (50 lakhs)

Answer Key

- 1. B — Section 4 dictates that not less than 51% of the share capital of the State Bank of Pakistan shall be held by the Federal Government
- 2. C — Section 9 explicitly designates the Governor of the State Bank as the Chairman of the Central Board of Directors
- 3. D — Section 17(2)(b) permits the purchase or rediscount of bills/promissory notes drawn for seasonal agricultural operations maturing within fifteen months
- 4. B — Section 37(2)(a)(ii) requires a banking company or cooperative bank to have paid-up capital and reserves of an aggregate value of not less than five lakhs of rupees (Rs 500,000) to be scheduled

Lesson 17: SBP Banking Services Corporation Ordinance, 2001

1. What is the corporate status of the SBP Banking Services Corporation relative to the State Bank of Pakistan under Section 4 of the Ordinance?

- A) A fully independent public statutory body

- B) A subsidiary of the State Bank of Pakistan
- C) A department of the Federal Ministry of Finance
- D) A private non-banking finance company

2. Under Section 5(2) of the Ordinance, which core central banking function CANNOT be transferred or delegated to the SBP Banking Services Corporation?

- A) Handling the receipt, supply, and exchange of bank notes and coins
- B) Issue, supply, and sale of prize bonds and government savings instruments
- C) Formulation and monitoring of monetary and credit policies
- D) Revenue collection and payments on behalf of the Federal Government

3. What is the authorized share capital of the SBP Banking Services Corporation as specified in Section 6?

- A) Five hundred million rupees
- B) One billion rupees
- C) Five billion rupees
- D) Ten billion rupees

4. Under Section 20, what maximum punishment may be imposed on an employee who violates the statutory duty to preserve secrecy regarding the affairs of the Bank?

- A) Imprisonment up to 1 year or fine up to Rs 50,000
- B) Imprisonment up to 2 years or fine up to Rs 75,000
- C) Imprisonment up to 3 years or fine up to Rs 100,000
- D) Imprisonment up to 5 years or fine up to Rs 500,000

Answer Key

1. B — Section 4 explicitly states that the SBP Banking Services Corporation shall be a subsidiary of the State Bank of Pakistan
2. C — Section 5(2) prohibits delegating Section 9A SBP Act functions, including the formulation and monitoring of monetary and credit policies
3. B — Section 6 specifies an authorized share capital of one billion rupees divided into shares of one million rupees each
4. C — Section 20 provides that a breach of secrecy is punishable with imprisonment for a term up to 3 years or a fine up to Rs 100,000, or both

Lesson 18: Pakistan Banking and Finance Services Commission Act, 1992

1. Under Section 3 of the Pakistan Banking and Finance Services Commission Act, 1992, what is the maximum number of members (excluding the Chairman) that constitute the Commission?

- A) Two members
- B) Three members
- C) Four members
- D) Six members

2. Under Section 7 of the Act, open competitive examinations conducted by the Commission apply to initial recruitment for which grade or higher posts in financial institutions?

- A) Grade I

- B) Grade II
- C) Grade III
- D) Executive Grade

3. Under Section 8 of the Act, which class of professionals may the Commission exempt from appearing in written tests or examinations?

- A) Cashiers and tellers
- B) Engineers, lawyers, and chartered accountants
- C) Branch managers and audit clerks
- D) Security guards and IT operators

4. According to Section 11 of the Act, to whom must the Commission submit its annual report regarding the work done during the year?

- A) Governor of the State Bank of Pakistan
- B) Federal Finance Minister
- C) Prime Minister of Pakistan
- D) President of Pakistan

Answer Key

1. C — Section 3 provides that the Commission shall consist of a Chairman and not more than four members appointed by the Federal Government
2. C — Section 7(a) specifies the conducting of open competitive examinations for recruitment to Grade III or higher posts in financial institutions
3. B — Section 8 empowers the Commission to exempt professionals such as engineers, lawyers, and chartered accountants from appearing in written tests
4. D — Section 11 mandates that the Commission submit an annual report on its work directly to the President

Lesson 19: Microfinance Institutions Ordinance, 2001

1. Under Section 10 of the Microfinance Institutions Ordinance, 2001, what is the minimum paid-up capital required for a microfinance institution licensed to operate nationally?

- A) Rs 100 million
- B) Rs 250 million
- C) Rs 500 million
- D) Rs 1 billion

2. Under Section 10 of the Ordinance, what minimum percentage of the paid-up capital of a microfinance institution must be subscribed by the promoters or sponsor members?

- A) 25%
- B) 33%
- C) 51%
- D) 75%

3. Under Section 19 of the Ordinance, what percentage of a microfinance institution's annual after-tax profits must be credited to the Depositors' Protection Fund?

- A) 2%
- B) 5%
- C) 10%
- D) 20%

4. Under Section 19(3) of the Ordinance, the Depositors' Protection Fund is used to pay individual depositors up to what maximum aggregate deposit amount in the event of liquidation?

- A) Rs 5,000
- B) Rs 10,000
- C) Rs 25,000
- D) Rs 50,000

Answer Key

1. C — Section 10(c) requires a minimum paid-up capital of Rs 500 million for microfinance institutions licensed to operate nationally
2. C — Section 10 specifies that not less than 51% of paid-up capital must be subscribed by promoters or sponsor members and kept in SBP custody
3. B — Section 19(2) dictates that 5% of annual after-tax profits shall be credited to the Depositors' Protection Fund
4. B — Section 19(3) states that the fund shall be used to make payments to individual depositors with aggregate deposits up to Rs 10,000 in case of liquidation

Lesson 20: Banker-Customer Relationship

1. According to Sir John Paget, which of the following is NOT one of the four essential functions required to qualify a person or body corporate as a banker?

- A) Taking deposit accounts
- B) Issuing equity shares on stock exchanges
- C) Taking current accounts
- D) Issuing and paying cheques

2. In the landmark case of Ladbroke v. Todd (1914), when does a person legally become a customer of a bank?

- A) After completing one year of regular account transactions
- B) Only after obtaining written approval from the State Bank
- C) The moment the bank accepts money or a cheque and agrees to open an account
- D) Upon signing a credit facility agreement

3. Under Section 72 of the Negotiable Instruments Act, 1881, what is a primary duty of a customer when presenting cheques for payment?

- A) To present them within the regular business hours of the banker
- B) To give 24 hours prior written notice before presenting any cheque
- C) To present them exclusively at the central office of the bank
- D) To obtain notarization prior to presentation

4. Under Section 84 of the Negotiable Instruments Act, 1881, cheques and other negotiable instruments must be presented for payment within what time period?

- A) Within 24 hours of issue
- B) Within a reasonable time from the date of their issue
- C) Exclusively on the last working day of the month
- D) Within exactly seven days of issue

Answer Key

1. B — Paget's definition requires taking deposit accounts, taking current accounts, issuing/paying cheques, and collecting cheques; issuing equity shares is not included
2. C — Justice Bailhache held that a person becomes a customer the moment the bank receives money or a cheque and agrees to open an account
3. A — Section 72 lays down that the customer must present cheques for payment and collection within the business hours of his banker
4. B — Section 84 stipulates that the customer should see that cheques and other instruments are presented for payment within a reasonable time from issue

Lesson 21: Banker-Customer Relationship

1. What is the fundamental legal nature of the relationship established between a banker and a customer upon opening an account?

- A) Statutory trust relationship
- B) Contractual relationship
- C) Criminal liability partnership
- D) Administrative agency relationship

2. Under Section 2(e) of the Contract Act, 1872, how is an "agreement" defined?

- A) A formal deed registered before a District Court
- B) Every promise or set of promises forming consideration for each other
- C) A mandate issued by a regulatory body
- D) A unilateral declaration made on oath

3. Under Section 2(b) of the Contract Act, 1872, when does a proposal become a "promise"?

- A) When it is published in an official gazette
- B) When the person to whom it is made signifies assent thereto
- C) When stamp duty is paid on the proposal
- D) When it is witnessed by two independent directors

4. Which of the following is required under the Contract Act, 1872 to ensure that consent is legally "free"?

- A) It must be given in the presence of a magistrate
- B) It must not be obtained through coercion, undue influence, fraud, or misrepresentation
- C) It must be approved by the State Bank of Pakistan
- D) It must be executed on non-judicial stamp paper of Rs 1,000

Answer Key

1. B — The basic legal relationship between a banker and a customer is a contractual relationship established from the time of opening an account
2. B — Section 2(e) defines an agreement as every promise or set of promises, forming the consideration for each other
3. B — Section 2(b) specifies that when the person to whom the proposal is made signifies his assent thereto, the proposal is accepted and becomes a promise
4. B — Consent is treated as free if it is not obtained by coercion, undue influence, fraud, or misrepresentation

Lesson 22: Banker-Customer Relationship

1. When a customer deposits money into a general bank account, what is the exact legal relationship established between the banker and the customer regarding those funds?

- A) Banker is Bailee & Customer is Bailor
- B) Banker is Debtor & Customer is Creditor
- C) Banker is Trustee & Customer is Beneficiary
- D) Banker is Mortgagee & Customer is Mortgagor

2. When a bank grants a loan or credit facility to a customer, how does the primary legal relationship change?

- A) Banker becomes Creditor & Customer becomes Debtor
- B) Banker becomes Agent & Customer becomes Principal
- C) Banker becomes Trustee & Customer becomes Beneficiary
- D) Banker becomes Assignee & Customer becomes Assignor

3. When a bank collects cheques, drafts, or dividend warrants on behalf of its customer, in what legal capacity is the bank acting?

- A) Pledgee
- B) Agent for the customer (Principal)
- C) Mortgagor
- D) Court liquidator

4. Under Section 218 of the Contract Act, 1872, what is the statutory duty of an agent regarding sums received on the principal's account?

- A) To deposit all sums into the government treasury
- B) To pay all sums received to the principal, subject to lawful deductions
- C) To invest all sums in approved government securities
- D) To retain all sums until ordered by a civil court

Answer Key

1. B — Depositing money constitutes a loan to the bank, establishing the banker as debtor and customer as creditor
2. A — When a bank grants a loan or overdraft, the relationship is reversed so that the banker is creditor and customer is debtor
3. B — In performing collection of cheques, bills, and dividends, the banker acts as an agent for the customer (principal)
4. B — Section 218 mandates that, subject to deductions for expenses and remuneration under Section 217, the agent is bound to pay to his principal all sums received on his account

Lesson 23: Banker-Customer Relationship

1. When a customer avails safe custody locker facilities from a bank, what legal relationship is created between the customer and the bank?

- A) Mortgagor and Mortgagee
- B) Bailor (Customer) and Bailee (Bank)
- C) Debtor and Creditor
- D) Principal and Agent

2. Under Section 58 of the Transfer of Property Act, how is a "mortgage" defined?

- A) The absolute sale of movable goods to a bank

- B) The transfer of an interest in specific immovable property to secure repayment of a debt
- C) The deposit of cash in a remunerative account
- D) The assignment of a life insurance policy

3. How is an "Equitable Mortgage" created under banking practice?

- A) By registering a formal mortgage deed with the Registrar of Titles
- B) By depositing original title deeds of immovable property with the bank
- C) By transferring physical possession of residential premises to the bank
- D) By executing a promissory note on judicial stamp paper

4. When credit facilities are extended against the pledge of movable goods, what key right is vested in the bank (Pledgee) in the event of borrower default?

- A) Right to immediately confiscate all personal assets of the borrower's family
- B) Right to sell the pledged goods after giving reasonable notice to the borrower
- C) Right to convert the borrower's firm into a public limited company
- D) Right to cancel the borrower's national identity card

Answer Key

1. B — Availing safe custody locker facilities establishes the legal relationship of Bailor (customer) and Bailee (bank)
2. B — Section 58 defines a mortgage as the transfer of an interest in specific immovable property for securing payment of money advanced or an existing/future debt
3. B — An equitable mortgage is created by the deposit of title deeds of immovable property by the mortgagor with the bank
4. B — The pledgee has actual control of pledged goods and an implied power to sell them upon default after giving reasonable notice to the borrower

Lesson 24: Banker-Customer Relationship

1. In a joint bank account, what is the legal rule regarding stop-payment instructions for a cheque?

- A) Stop-payment instructions require the unanimous signatures of all joint holders
- B) Any single joint account holder can issue a stop-payment instruction, but reinstatement requires signatures of all holders
- C) Stop-payment instructions can only be issued by a court order
- D) Joint account cheques cannot be stopped under any circumstances

2. Under Section 3 of the Majority Act, 1875, if a court appoints a guardian for a minor before the minor attains 18 years, at what age does the minor attain legal majority?

- A) 18 years
- B) 19 years
- C) 21 years
- D) 25 years

3. Under Section 19(2)(b) of the Partnership Act, 1932, does an individual partner have implied authority to open a bank account on behalf of the firm in his own name?

- A) Yes, an individual partner has full implied authority to open bank accounts
- B) No, an individual partner has no implied authority to open a bank account on behalf of the firm
- C) Yes, provided the firm has fewer than three partners

D) Yes, if the partner is the senior-most partner

4. What is the key distinction between an "Executor" and an "Administrator" regarding a deceased customer's estate?

- A) An Executor is appointed by a court, whereas an Administrator is nominated in a Will
- B) An Executor is named in a Will to carry out its directions, whereas an Administrator is appointed by a court
- C) An Executor manages commercial companies, whereas an Administrator manages partnership firms
- D) An Executor must be a banking company, whereas an Administrator is a natural person

Answer Key

1. B — Any one joint account holder has the authority to issue a stop payment instruction, but revocation/reinstatement requires signatures of all account holders
2. C — Where a guardian is appointed by a court before age 18, majority extends to the age of 21 years
3. B — Section 19(2)(b) specifies that a partner has no implied authority to open a bank account on behalf of the firm
4. B — An Executor is nominated by the testator in a Will, while an Administrator is appointed by a court when there is no Will or the executor is incompetent

Lesson 25: Negotiable Instruments

1. Under Section 13 of the Negotiable Instruments Act, 1881, which three instruments are explicitly defined as negotiable instruments?

- A) Promissory note, bill of exchange, and cheque
- B) Share warrant, dividend warrant, and bearer debenture
- C) Letter of credit, bill of lading, and trust receipt
- D) Trust deed, mortgage deed, and power of attorney

2. Which of the following is recognized under banking practice as a "Quasi Negotiable Instrument"?

- A) Cheque payable to order
- B) Dividend warrant
- C) Unconditional bill of exchange
- D) Demand draft

3. How is a Promissory Note defined under Section 4 of the Negotiable Instruments Act, 1881?

- A) An order in writing directing a specified bank to pay money on demand
- B) An instrument in writing containing an unconditional undertaking, signed by the maker, to pay a certain sum of money
- C) A conditional guarantee to reimburse an agent for business expenses
- D) A receipt issued by a goldsmith acknowledging custody of bullion

4. What constitutes a "material alteration" on a negotiable instrument under Section 3 of the Act?

- A) Any modification that affects the date, sum payable, time, or place of payment after execution
- B) Stamping the instrument with a bank branch seal
- C) Writing the account number on the reverse of the instrument
- D) Translating the text into a regional language

Answer Key

1. A — Section 13 explicitly defines a negotiable instrument as a promissory note, bill of exchange, or cheque payable either to order or to bearer
2. B — Instruments like dividend warrants, share warrants, and bearer debentures are recognized as quasi-negotiable instruments
3. B — Section 4 defines a promissory note as an instrument in writing containing an unconditional undertaking, signed by the maker, to pay a certain sum of money
4. A — Material alteration includes any change to the date, sum payable, time of payment, or place of payment that alters the legal rights or liabilities of a party

Lesson 26: Negotiable Instruments

1. Why does the statement "I promise to pay Rs. 100,000 to Mr. Ahmad 30 days after getting admission in a University" FAIL to qualify as a valid promissory note?

- A) It is not executed on non-judicial stamp paper
- B) The time of payment is uncertain and dependent on a contingency
- C) It does not name a specific bank branch
- D) It is witnessed by third parties

2. Which of the following is a key legal distinction between a Promissory Note and a Bill of Exchange?

- A) A promissory note contains an unconditional order, whereas a bill of exchange contains a promise
- B) In a promissory note the maker is the principal debtor, whereas in a bill of exchange the drawer acts as surety after acceptance
- C) A bill of exchange cannot be negotiated by endorsement
- D) A promissory note requires three primary parties, whereas a bill of exchange requires only one

3. How is a Bill of Exchange defined under Section 5 of the Negotiable Instruments Act, 1881?

- A) An unconditional promise in writing made by a debtor to a creditor
- B) An instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money
- C) A cheque drawn on a specified banker payable only at sight
- D) A transport document issued by a sea carrier upon receipt of goods

4. What is the legal effect if a bill of exchange orders payment out of a "particular fund"?

- A) It remains completely unconditional
- B) It becomes conditional and therefore fails to qualify as a valid bill of exchange
- C) It automatically converts the bill into a banker's draft
- D) It exempts the drawee from accepting the bill

Answer Key

1. B — A promissory note must contain an unconditional promise payable at a time certain or determinable, not dependent on an uncertain contingency
2. B — In a promissory note the maker is the primary debtor, whereas in a bill of exchange the maker (drawer) is a surety once the drawee accepts the bill
3. B — Section 5 defines a bill of exchange as an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay

4. B — An order to pay out of a particular fund is conditional, rendering the document invalid as a bill of exchange

Lesson 27: Negotiable Instrument

1. Under Section 6 of the Negotiable Instruments Act, 1881, what is the specific statutory requirement regarding the drawee of a cheque?

- A) The drawee can be any natural person or commercial firm
- B) The drawee must always be a specified banker
- C) The drawee must be a court liquidator
- D) The drawee must be the central government treasury

2. What is the legal effect of crossing a cheque with the addition of the words "Account Payee"?

- A) The cheque becomes payable in cash over the bank counter
- B) The cheque ceases to be negotiable and the collecting bank must credit the proceeds only to the named payee's account
- C) The cheque is automatically voided
- D) The cheque can only be cleared by the State Bank of Pakistan

3. Under Section 29-B of the Negotiable Instruments Act, 1881, what is the legal standing of a forged or unauthorized signature on an instrument?

- A) It is valid if supported by two independent witnesses
- B) It is wholly inoperative and confers no right or title to the instrument
- C) It automatically transfers title to a holder in due course
- D) It binds the bank unless reported within 24 hours

4. Under Section 122-A of the Negotiable Instruments Act, 1881, which event revokes a banker's duty and authority to pay a customer's cheque?

- A) Fluctuation in commercial interest rates
- B) Countermand of payment (stop-payment instruction) by the customer
- C) Transfer of the branch manager
- D) Filing of routine tax returns

Answer Key

- 1. B — Section 6 defines a cheque as a bill of exchange drawn on a specified banker and payable on demand
- 2. B — Under Section 123A, an "account payee" crossing renders the cheque non-negotiable and obligates the bank to credit proceeds strictly to the payee's account
- 3. B — Section 29-B specifies that a forged or unauthorized signature is wholly inoperative and creates no right to enforce payment
- 4. B — Section 122-A states that a banker's authority to pay a cheque is determined by countermand of payment, notice of customer's death, or notice of insolvency

Lesson 28: Negotiable Instruments

1. How is an "Endorsement in Blank" defined under Section 16 of the Negotiable Instruments Act, 1881?

- A) An endorsement that specifies the name of the endorsee
- B) An endorsement where the endorser signs his name only, making the instrument payable to bearer

- C) An endorsement that prohibits further negotiation
- D) An endorsement that excludes the endorser's personal liability

2. What type of endorsement is created when an endorser writes "Pay Yasir without recourse to me"?

- A) Restrictive endorsement
- B) Sans recours / Without recourse endorsement excluding endorser's personal liability
- C) Partial endorsement
- D) Blank endorsement

3. Under Section 56 of the Act, what is the legal validity of a partial endorsement that purports to transfer only a portion of the sum payable?

- A) It is fully valid for the partial amount
- B) It is invalid for the purpose of negotiation unless the partial amount has already been paid and noted on the instrument
- C) It automatically converts the instrument into a cheque
- D) It discharges all prior parties

4. How many "days of grace" are allowed under Section 22 for calculating the maturity of a promissory note or bill of exchange not payable on demand?

- A) 1 day
- B) 3 days
- C) 7 days
- D) 14 days

Answer Key

1. B — Section 16 provides that if the endorser signs his name only, the endorsement is "in blank" and the instrument becomes payable to bearer
2. B — Section 52 permits an endorser to exclude his own liability on the instrument by using express words like "without recourse"
3. B — Section 56 specifies that an endorsement transferring only part of the sum payable is invalid as a negotiation, unless part payment was already made and noted on the note/bill
4. B — Section 22 provides three days of grace for determining maturity of notes or bills not payable on demand

Lesson 29: Parties to Promissory Notes, Bills and Cheques

1. What is the legal position of a minor who draws, makes, or negotiates an instrument under Section 26 of the Act?

- A) The minor is personally liable on the instrument
- B) The minor cannot bind himself, but the instrument binds all other competent parties thereto
- C) The instrument becomes void ab initio for all parties
- D) The minor's legal guardian becomes automatically liable

2. How is a "Holder in Due Course" defined under Section 9 of the Negotiable Instruments Act, 1881?

- A) Any person who holds an instrument without giving consideration
- B) A person who for valuable consideration becomes possessor of an instrument before maturity, in good faith, and without notice of title defects

- C) An official receiver appointed by the High Court
- D) The drawer of a dishonored cheque

3. Under Section 80 of the Act, if a promissory note or bill of exchange is silent regarding the rate of interest, what statutory rate per annum applies?

- A) 3%
- B) 6%
- C) 10%
- D) 12%

4. Under Section 82 of the Act, which of the following is NOT a statutory mode of discharging a party from liability on an instrument?

- A) Cancellation
- B) Release
- C) Payment in due course
- D) Unilateral verbal extension

Answer Key

1. B — Section 26 provides that a minor cannot bind himself, but making or negotiating by a minor entitles the holder to enforce payment against all other competent parties
2. B — Section 9 defines a holder in due course as one who acquires the instrument for value, before maturity, in good faith, and without notice of title defects
3. B — Section 80 dictates that where no rate of interest is specified, interest shall be calculated at the rate of 6% per annum
4. D — Section 82 enumerates discharge by cancellation, release, or payment in due course; verbal extensions are not recognized statutory modes of discharge

Lesson 30: Principles and Forms of Lending

1. What banking term describes the difference between the interest/profit rate charged on loans and the interest/profit rate paid to depositors?

- A) Margin call
- B) Spread
- C) Discount rate
- D) Yield curve

2. What are the four main categories of financial risk managed by banking institutions?

- A) Credit risk, Liquidity risk, Market risk, and Operational risk
- B) Tax risk, Political risk, Currency risk, and Legal risk
- C) Insurance risk, Property risk, Systemic risk, and Inflation risk
- D) Audit risk, Accounting risk, Exchange risk, and Sovereign risk

3. How does the Basel Committee define "Operational Risk"?

- A) Risk of default by foreign sovereign governments
- B) The risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events
- C) Loss caused exclusively by stock market volatility
- D) Inability of a bank to meet its daily clearing house obligations

4. What is the fundamental requirement regarding a commercial bank's credit policy in relation to the State Bank of Pakistan (SBP)?

- A) It can override SBP rules if approved by shareholders
- B) It must strictly comply with the Prudential Regulations issued by the SBP
- C) It applies exclusively to international trade transactions
- D) It is formulated independently by individual branch officers

Answer Key

1. B — Banking "spread" is the margin between profit/interest earned on loans and investments and profit/interest paid to depositors/creditors
2. A — The four major categories of financial risk in banking are credit risk, liquidity risk, market risk, and operational risk
3. B — Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events
4. B — A bank's credit policy must be framed in strict alignment with the Prudential Regulations issued by the SBP

Lesson 31: Principles and Forms of Lending

1. In credit evaluation, what do the key risk assessment factors known as the "5 Cs" stand for?

- A) Cash, Cost, Credit, Capital, and Currency
- B) Character, Capital, Capacity, Conditions, and Collateral
- C) Cheque, Clearing, Charge, Commission, and Contract
- D) Compliance, Control, Coverage, Continuity, and Culture

2. Which credit culture focuses primarily on loan volume and growth, resulting in aggressive underwriting and potential long-term quality deterioration?

- A) Value-driven credit culture
- B) Current-profit driven credit culture
- C) Market-share driven credit culture
- D) Risk-averse credit culture

3. How is "Hypothecation" legally distinguished from a "Pledge"?

- A) In hypothecation, physical possession of goods is transferred to the bank, whereas in pledge it remains with the borrower
- B) In hypothecation, physical possession of goods remains with the borrower, whereas in a pledge possession is transferred to the bank (pledgee)
- C) Hypothecation applies exclusively to real estate immovable property
- D) Pledge does not grant the bank the right to sell goods upon default

4. What is the legal nature of a commercial insurance contract (other than life insurance)?

- A) Contract of guarantee
- B) Contract of indemnity
- C) Contract of bailment
- D) Quasi-contractual pledge

Answer Key

1. B — The traditional "5 Cs" of credit analysis are Character, Capital, Capacity, Conditions, and Collateral

2. C — A market-share driven credit culture prioritizes loan volume and market share growth, often accepting higher risk and lower pricing
3. B — Hypothecation creates a charge over goods while possession stays with the borrower, whereas a pledge requires physical delivery of possession to the lender
4. B — Contracts of insurance (excluding life insurance) are contracts of indemnity where the insurer promises to indemnify the assured against loss

Lesson 32: Letter of Credit

1. In a Letter of Credit (Documentary Credit) transaction, what do commercial banks deal in?

- A) Physical inspection and quality testing of merchandise at destination ports
- B) Documents only, and not in the actual goods, services, or performance
- C) Customs clearance and warehousing logistics
- D) Freight transportation and shipping vessel operations

2. Which set of international rules published by the International Chamber of Commerce (ICC) governs standard Letter of Credit operations globally?

- A) Incoterms 2020
- B) Uniform Customs and Practice for Documentary Credits (UCP 600)
- C) Warsaw-Oxford Rules
- D) Hamburg Rules on Carriage of Goods

3. In a Letter of Credit structure, who is the "Applicant" and who is the "Beneficiary"?

- A) Applicant is the Exporter (Seller) and Beneficiary is the Importer (Buyer)
- B) Applicant is the Importer (Buyer) and Beneficiary is the Exporter (Seller)
- C) Applicant is the Advising Bank and Beneficiary is the Issuing Bank
- D) Applicant is the Port Authority and Beneficiary is the Shipping Line

4. Among international trade payment methods, which method carries the HIGHEST commercial risk for the exporter?

- A) Payment in Advance / Cash in Advance
- B) Irrevocable Letter of Credit
- C) Open Account Method
- D) Sight Documentary Collection (D/P)

Answer Key

1. B — Article 5 of UCP 600 dictates that banks deal with documents alone and not with the underlying goods, services, or performance
2. B — Letters of credit globally operate under the Uniform Customs and Practice for Documentary Credits (UCP 600) published by the ICC
3. B — The Applicant is the buyer/importer who requests the LC, and the Beneficiary is the seller/exporter in whose favor the credit is opened
4. C — Under open account terms, goods are delivered before payment is received, placing maximum non-payment risk on the exporter

Lesson 33: Letter of Credit

1. Under UCP 600, how is a Letter of Credit (Credit) defined?

- A) A revocable agreement subject to the buyer's written consent
- B) Any arrangement that is irrevocable and constitutes a definite undertaking of the issuing bank to honor a complying presentation
- C) An unconditional guarantee given by an advising bank to the port authority
- D) A loan agreement between an importer and a local microfinance bank

2. What is the key distinction between a Sight Draft and a Time (Usance) Draft under a Letter of Credit?

- A) A sight draft requires an inspection certificate, while a time draft does not
- B) A sight draft is payable immediately upon presentation, whereas a time draft is payable at a specified future date after acceptance
- C) A sight draft can only be issued by the advising bank, while a time draft is issued by the buyer
- D) A sight draft is always revocable, while a time draft is irrevocable

3. What role does a Confirming Bank play in a Letter of Credit transaction?

- A) It advises the applicant on insurance premiums
- B) It adds its own definite undertaking to honor or negotiate in addition to that of the issuing bank
- C) It clears custom duties on behalf of the exporter
- D) It collects taxes for the Federal Government

4. What is a primary advantage of a Deferred Payment Letter of Credit compared to an Acceptance Letter of Credit?

- A) It does not require presentation of a bill of lading
- B) It avoids the payment of stamp duty because no bill of exchange is drawn
- C) It eliminates the need for an issuing bank
- D) It allows the buyer to cancel the credit at any time

Answer Key

1. B — Article 2 of UCP 600 defines credit as an irrevocable arrangement constituting a definite undertaking of the issuing bank to honor a complying presentation
2. B — A sight draft is payable upon complying presentation, while a time draft falls due at a fixed or determinable future date after acceptance
3. B — A confirming bank adds its own definite commitment to honor or negotiate a complying presentation upon authorization or request from the issuing bank
4. B — Deferred payment credits do not require drawing a bill of exchange, thereby avoiding stamp duty associated with drafts

Lesson 34: Letter of Credit

1. Which type of Letter of Credit allows an initial cash advance to the beneficiary prior to the shipment of goods?

- A) Standby Letter of Credit
- B) Red Clause Letter of Credit
- C) Back-to-Back Letter of Credit
- D) Revolving Letter of Credit

2. What is a Transferable Letter of Credit?

- A) An LC that automatically converts into a commercial loan upon arrival of goods

- B) An LC under which the beneficiary can request the bank to make the credit available in whole or part to one or more second beneficiaries
- C) An LC that can be transferred to any third party without bank authorization
- D) An LC that allows the buyer to transfer ownership of the issuing bank

3. Which of the following is considered a common discrepancy in Letter of Credit documentation?

- A) Commercial invoice made in the currency of the credit
- B) Documents presented after the expiration date of the credit
- C) Bill of lading indicating on-board notation
- D) Certificate of origin attached as stipulated

4. If an exporter presents documents containing discrepancies, which of the following is a recognized course of action to resolve the issue?

- A) The advising bank automatically cancels the underlying sales contract
- B) The exporter may request the negotiating bank to send documents to the issuing bank on a collection basis or seek a waiver
- C) The importer can seize the goods without presenting any transport documents
- D) The exporter can alter the bill of lading date without carrier approval

Answer Key

1. B — A Red Clause Letter of Credit contains a special clause authorizing the nominated bank to make pre-shipment advances to the beneficiary
2. B — A transferable LC permits the first beneficiary to request the transferring bank to make the credit available to one or more second beneficiaries
3. B — Presenting documents after the credit's expiry date is a major discrepancy causing non-compliance
4. B — When documents are discrepant, the exporter can ask the bank to forward documents on a collection basis or request the issuing bank to waive the discrepancies

Lesson 35: Flow Chart of Letter of Credit—Revisited

1. In the standard Letter of Credit flow, who transmits the shipping documents to the Issuing Bank after shipment?

- A) Customs department
- B) Exporter directly or through the Advising/Nominated Bank
- C) Port authority
- D) Ministry of Commerce

2. Under ICC Publication URR 525, what is the relationship between a Reimbursement Authorization and the underlying Letter of Credit?

- A) The Reimbursement Authorization is identical to and dependent on the underlying sales contract
- B) The Reimbursement Authorization is separate and independent from the Credit, and the Reimbursing Bank is not bound by the Credit's terms
- C) The Reimbursement Authorization revokes the issuing bank's liability
- D) The Reimbursement Authorization requires the buyer's counter-signature on every claim

3. Under URR 525, who is designated as the "Claiming Bank"?

- A) The buyer's local trade branch

- B) The bank that pays, incurs a deferred payment undertaking, accepts draft(s), or negotiates under a Credit and presents a claim to the Reimbursing Bank
- C) The government central treasury
- D) The insurance company issuing the marine policy

4. What happens when an Issuing Bank sends a Reimbursement Authorization to a Reimbursing Bank?

- A) The reimbursing bank becomes the primary carrier of the merchandise
- B) The reimbursing bank acts on the instructions/authority of the issuing bank to reimburse the claiming bank
- C) The reimbursing bank inspects the physical goods at the destination port
- D) The reimbursing bank is obliged to guarantee the buyer's creditworthiness to the public

Answer Key

- 1. B — After shipping the consignment, the exporter submits documents to the nominated/advising bank, which forwards them to the issuing bank
- 2. B — Article 3 of URR 525 states that a Reimbursement Authorization is separate from the Credit, and the Reimbursing Bank is not bound by the Credit's terms
- 3. B — Article 2(e) of URR 525 defines a Claiming Bank as a bank that pays, accepts drafts, incurs deferred payment, or negotiates under a credit and claims reimbursement
- 4. B — Under URR 525, the reimbursing bank acts under the authority of the issuing bank to honor reimbursement claims from the claiming bank

Lesson 36: Uniform Customs and Practice for Documentary Credits (UCP 600)

1. When did UCP 600, published by the International Chamber of Commerce (ICC), become effective globally?

- A) 1st January 2000
- B) 1st July 2007
- C) 31st December 2010
- D) 1st September 1995

2. Under Article 14 of UCP 600, what is the maximum time allowed to a bank following the day of presentation to examine documents and determine compliance?

- A) 3 calendar days
- B) 5 banking days
- C) 7 working days
- D) 10 business days

3. Under Article 5 of UCP 600, what is the foundational rule regarding what banks deal with in documentary credit transactions?

- A) Banks deal with physical inspection of merchandise
- B) Banks deal with documents only, and not with goods, services, or performance
- C) Banks deal with custom valuation reports exclusively
- D) Banks deal with shipping vessel registrations

4. Under Article 36 (Force Majeure) of UCP 600, what is the rule regarding a Letter of Credit that expires during a business interruption caused by an Act of God or war?

- A) The credit is automatically extended for 60 days after resumption of business
- B) The bank will not honor or negotiate under a credit that expired during such interruption upon resumption of business
- C) The central bank assumes full financial liability for the credit
- D) The buyer is required to pay double the credit value in cash

Answer Key

1. B — UCP 600 was revised by the ICC and came into force on 1st July 2007
2. B — Article 14(b) gives each bank a maximum of five banking days following the day of presentation to determine if a presentation is complying
3. B — Article 5 explicitly states that banks deal with documents and not with goods, services, or performance to which the documents relate
4. B — Under Article 36, upon resumption of business, a bank will not honor or negotiate under a credit that expired during a force majeure interruption

Lesson 37: Designing Legal Documents

1. In a Hire-Purchase agreement executed between a bank and a customer, what is the legal role of the Bank?

- A) Mortgagor
- B) Purchaser and owner of the article let out on hire
- C) Pledger
- D) Official Liquidator

2. What is the legal status of the hirer regarding the hired articles during the subsistence of a Hire-Purchase agreement before full conveyance?

- A) Absolute owner with right to sell
- B) Bailee with no authority to mortgage, pledge, or sub-let the property
- C) Trustee for the Ministry of Finance
- D) Registered mortgagee

3. What primary security charge is created in favor of a bank over movable stocks and goods through a "Letter of Hypothecation"?

- A) Registered equitable title deed
- B) First charge by way of hypothecation while possession remains with the borrower
- C) Absolute transfer of land ownership
- D) Irrevocable power of attorney over real estate

4. In a Deed of Mortgage executed for securing bank facilities, what key details must be described in Schedule-II of the deed?

- A) The list of foreign correspondent banks
- B) The exact boundaries, measurement, and description of the mortgaged immovable property
- C) The personal qualifications of the branch manager
- D) The central bank's monetary target percentages

Answer Key

1. B — Under a hire-purchase arrangement, the bank acts as purchaser acquiring title from the supplier and letting the article out to the hirer

- 2. B — Until all installments are paid and title conveyed, the hirer holds the goods merely as a bailee without authority to pledge or dispose of them
- 3. B — A Letter of Hypothecation creates a first charge over movable stocks/goods while physical possession remains with the borrower
- 4. B — Schedule-II of a mortgage deed contains the detailed legal description, measurements, and physical boundaries of the mortgaged immovable property

Lesson 38: Prudential Regulations of SBP

1. When did the State Bank of Pakistan's Prudential Regulations initially become effective?

- A) 1st January 1985
- B) 1st July 1992
- C) 14th August 2000
- D) 31st December 2005

2. Under Prudential Regulations for Consumer Financing, what requirement applies to clean personal loans regarding Initial Public Offerings (IPOs)?

- A) Clean personal loans are specifically created to fund IPO subscriptions
- B) Banks/DFIs must obtain an undertaking and institute checks to ensure clean loans are NOT used for IPO subscriptions
- C) IPO financing carries a 0% reserve requirement
- D) Clean loans for IPOs must be approved directly by the Ministry of Finance

3. Under Regulation R-4 of Consumer Financing Regulations, what general reserve percentage must banks/DFIs maintain against the UNSECURED performing consumer portfolio?

- A) 1%
- B) 1.5%
- C) 5%
- D) 10%

4. How are credit facilities extended to bank directors, major shareholders, or their family members regulated under Regulation R-1?

- A) They are completely prohibited under all circumstances
- B) They must be extended at arm's length basis and on normal commercial terms applicable to other customers
- C) They require prior sanction from the High Court
- D) They are exempt from all classification and provisioning rules

Answer Key

- 1. B — SBP announced Prudential Regulations on August 29, 1991, and made them effective from July 1, 1992
- 2. B — Regulation R-1 requires banks to institute internal controls and client undertakings so that clean consumer loans are not utilized for IPO subscriptions
- 3. C — Regulation R-4 mandates a general reserve of 1.5% for secured performing consumer loans and 5% for unsecured performing consumer loans
- 4. B — Facilities to related persons must be on an arm's length basis with normal market terms and uncompromised underwriting standards

Lesson 39: Prudential Regulations of SBP

1. Under Regulation R-5 of Prudential Regulations for Consumer Financing, what restriction is placed on transferring loan facilities between categories?

- A) Facilities can be transferred freely to reduce tax liabilities
- B) Banks/DFIs shall NOT transfer any facility from one category to another to avoid classification
- C) Transfers are mandatory every 90 days
- D) Transfers require written approval from foreign correspondent banks

2. Under Regulation O-3 for Credit Cards, from what point is a bank/DFI liable for unauthorized transactions on a lost or stolen credit card?

- A) From the date the card was originally manufactured
- B) After the bank has been properly served with notice that the card has been lost or stolen
- C) Only after 30 days from the theft
- D) The bank is never liable under any circumstances

3. Under Regulation R-7, what is the standard maximum clean (unsecured) credit card limit allowed to an individual borrower?

- A) Rs 100,000
- B) Rs 500,000
- C) Rs 1,000,000
- D) Rs 5,000,000

4. Under Regulation R-8, after how many days of default/overdue status must a credit card advance be classified as "Loss"?

- A) 60 days
- B) 90 days
- C) 180 days or more
- D) 365 days

Answer Key

1. B — Regulation R-5 strictly prohibits shifting facilities between categories of consumer finance to evade asset classification
2. B — Under Regulation O-3, the bank is liable for unauthorized transactions occurring after proper receipt of notice regarding a lost or stolen card
3. B — The standard clean limit under credit cards is generally capped at Rs 500,000, extendable up to Rs 2 million only for prime customers under defined criteria
4. C — Credit card advances overdue by 180 days or more are classified as Loss, requiring 100% provisioning against net uncollateralized principal

Lesson 40: Prudential Regulations of SBP

1. Under Regulation O-8 of Prudential Regulations for Consumer Financing (Auto Loans), what is the age limit for used cars eligible for bank financing?

- A) Not older than 2 years
- B) Not older than 3 years
- C) Not older than 5 years
- D) Not older than 10 years

2. Under Regulation O-6 regarding Auto Loans, what rule governs the repossession expenses charged to a defaulting borrower?

- A) Flat penalty rate of 50% of the loan value
- B) Repossession expenses charged shall NOT exceed actual expenses incurred by the bank/DFI
- C) Repossession expenses are fixed by the local police department
- D) Double the purchase price of the vehicle

3. According to Regulation O-7 for Auto Loans, within what timeframe must a revised repayment schedule be provided to the borrower if significant changes occur?

- A) Within 24 hours
- B) Not later than 15 days of the change
- C) Within 60 days
- D) At the end of the calendar year

4. Under Prudential Regulations, which of the following is explicitly included under the definition of "Consumer Financing"?

- A) Working capital facility for textile spinning mills
- B) Syndicated project loans for dam construction
- C) Auto loans, credit cards, housing finance, and personal loans to individuals
- D) Commercial letters of credit for import of machinery

Answer Key

- 1. C — Regulation O-8 dictates that banks/DFIs shall not finance used cars that are older than five years
- 2. B — Regulation O-6 specifies that repossession charges billed to borrowers must strictly reflect actual costs incurred by the bank/DFI
- 3. B — Revised repayment schedules due to significant changes must be issued to the borrower within 15 days
- 4. C — Consumer financing strictly covers personal, family, or household facilities extended to individuals, including auto loans, credit cards, housing finance, and personal loans

Lesson 41: Prudential Regulations of SBP

1. Under Regulation R-16 of SBP Prudential Regulations for Housing Finance, what is the maximum permissible debt-equity ratio?

- A) 50:50
- B) 70:30
- C) 80:20
- D) 85:15

2. Under Regulation R-17 of Prudential Regulations for Housing Finance, what is the maximum tenor/period for which banks/DFIs can extend mortgage loans for housing?

- A) 10 years
- B) 15 years
- C) 20 years
- D) 30 years

3. Under Regulation R-23 for Personal Loans, what is the standard clean (unsecured) loan limit per individual borrower?

- A) Rs 100,000

- B) Rs 250,000
- C) Rs 500,000
- D) Rs 1,000,000

4. While the standard maximum tenure for personal loans is 5 years under Regulation R-25, to what period may it be extended for educational loans disbursed directly to educational institutions?

- A) 6 years
- B) 7 years
- C) 8 years
- D) 10 years

Answer Key

1. D — Regulation R-16 mandates that housing finance facilities shall be provided at a maximum debt-equity ratio of 85:15
2. C — Regulation R-17 permits banks/DFIs to extend housing mortgage loans for a maximum tenure not exceeding 20 years
3. C — Regulation R-23 caps the general clean limit per individual for personal loans at Rs 500,000 (extendable up to Rs 2 million for prime customers)
4. B — Regulation R-25 allows the maximum tenure of personal loans to be extended from 5 years to 7 years specifically for educational loans paid directly to institutions

Lesson 42: Prudential Regulations of SBP

1. Under SBP Prudential Regulations for SME Financing, a business concern (trading, service, or manufacturing) qualifies as an SME if its annual net sales do not exceed:

- A) Rs 100 million
- B) Rs 200 million
- C) Rs 300 million
- D) Rs 500 million

2. While all six elements of the Fit & Proper Test (FPT) apply to Directors and CEOs, which three elements apply universally to all categories of individuals including sponsors?

- A) Qualification, Experience, and Conflict of Interest
- B) Integrity/Honesty/Reputation, Track Record, and Solvency/Integrity
- C) Academic Degree, Professional Training, and Age
- D) Tax Filings, Net Worth, and Political Affiliation

3. Under SBP Corporate Governance guidelines (Regulation G-1), what is the requirement regarding prior written clearance from the SBP for the appointment of Key Executives?

- A) Prior SBP clearance is mandatory for all Key Executives
- B) Prior SBP clearance is NOT required, but banks/DFIs must self-ensure compliance with the Fit & Proper Test
- C) Prior clearance is required only from the Ministry of Finance
- D) Key Executives must pass an open examination conducted by SBP

4. Under SBP Corporate Governance Regulations, major shareholders must obtain prior written approval from the SBP before acquiring shares carrying what voting power threshold?

- A) 2% or more

- B) 5% or more
- C) 10% or more
- D) 25% or more

Answer Key

1. C — An SME is defined as a concern with annual net sales not exceeding Rs 300 million as per its latest financial statements
2. B — The first three elements (Integrity/Honesty/Reputation, Track Record, Solvency/Integrity) apply to all categories, while the remaining three apply to key management positions
3. B — Appointment of Key Executives does not require prior SBP clearance; banks/DFIs themselves must ensure compliance with Fit & Proper Test criteria
4. B — Major shareholders are required to seek prior written approval from the SBP before acquiring 5% or more shares of a bank's paid-up capital

Lesson 43: Guidelines for Banks by SBP

1. According to SBP Risk Management Guidelines, what is the primary goal of risk management in a banking organization?

- A) To eliminate all risk completely from banking operations
- B) To optimize the risk-reward trade-off
- C) To maximize loan volume regardless of credit quality
- D) To shift all operational risk to central bank guarantees

2. At which hierarchy level of risk management are functions like establishing risk appetite, formulating strategy, and setting overall policies performed by the Board of Directors and Senior Management?

- A) Micro Level
- B) Macro Level
- C) Strategic Level
- D) Operational Level

3. To ensure effective risk control, how should individuals performing risk review, internal audit, and compliance functions be positioned in the organization?

- A) They should report directly to business development managers
- B) They must be independent of risk-taking units and report directly to the Board or non-risk-taking senior management
- C) They must be external consultants hired quarterly
- D) They should operate under the sales execution department

4. What type of financial risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, technology failures, or external events?

- A) Credit Risk
- B) Market Risk
- C) Liquidity Risk
- D) Operational Risk

Answer Key

1. B — SBP guidelines emphasize that risk management does not mean minimizing risk, but rather optimizing the risk-reward trade-off

2. C — Strategic level risk management encompasses functions performed by Senior Management and the Board of Directors, such as defining risk appetite and formulating strategy
3. B — Risk review, internal audit, and compliance personnel must be independent from risk-taking units and report directly to the Board or senior officers not involved in risk-taking
4. D — Operational risk is the risk of loss resulting from human error, system/technology failures, breach of internal controls, or external disruptions

Lesson 44: The Financial Institutions (Recovery of Finances) Ordinance, 2001

1. Under Section 2(b) of the Financial Institutions (Recovery of Finances) Ordinance, 2001, which forum has original jurisdiction for recovery suits where the claim amount exceeds Rs 50 million (5 crore)?

- A) District Court
- B) Banking Court established under Section 5
- C) High Court
- D) Supreme Court of Pakistan

2. Under Section 3 of the Ordinance, what additional amount is a defaulting customer liable to pay from the date of default until full realization?

- A) Compound interest at a fixed 20% flat rate
- B) Cost of funds of the financial institution as certified by the State Bank of Pakistan
- C) A mandatory penalty equal to double the principal loan
- D) Statutory tax fee of 5% paid to the Federal Government

3. Under Section 8 of the Ordinance, what is the limitation period for a financial institution to file a suit for recovery of finances written off for non-bona fide or political reasons on or after January 1, 1990?

- A) One year from the date of default
- B) Three years from the coming into force of the Ordinance
- C) Six years from the date of written-off agreement
- D) Twelve years under general civil law

4. Under Section 20(6) of the Ordinance, what is the legal character of all offences created under the Financial Institutions (Recovery of Finances) Ordinance, 2001?

- A) Non-bailable, cognizable, and non-compoundable
- B) Bailable, non-cognizable, and compoundable
- C) Non-bailable, non-cognizable, and non-compoundable
- D) Bailable, cognizable, and non-compoundable

Answer Key

1. C — Claims up to Rs 50 million fall under the Banking Court, whereas suits where the claim exceeds Rs 50 million are tried directly by the High Court
2. B — Defaulting customers are liable to pay the cost of funds certified by the SBP for the period from default until actual realization of the debt
3. B — Section 8 allows filing a recovery suit for politically written-off loans within 3 years from the date the Ordinance came into force

4. B — Section 20(6) explicitly specifies that all offences under the Ordinance shall be bailable, non-cognizable, and compoundable

Lesson 45: Ancillary Statutes

1. On what fundamental legal principle does the Limitation Act, 1908 operate regarding tardy or indolent claimants?

- A) Law assists the vigilant, not those who sleep over their rights
- B) Caveat emptor (Let the buyer beware)
- C) Res ipsa loquitur (The thing speaks for itself)
- D) An act does not make a person guilty unless there is a guilty mind

2. Under Section 3 of the Limitation Act, 1908, what duty is placed on the court if a suit is instituted after the prescribed period of limitation?

- A) The court must proceed with the suit unless the defendant raises a written objection
- B) The court shall dismiss the suit, although limitation has not been set up as a defense
- C) The court must refer the matter to the State Bank of Pakistan
- D) The court shall automatically extend the deadline by 60 days

3. Under Section 6 of the Limitation Act, 1908, if a person entitled to institute a suit is a minor or insane at the time of cause of action, when does the limitation period begin to run?

- A) It is permanently barred after one year
- B) From the date the legal disability ceases (e.g., attaining majority or sanity)
- C) Immediately from the date of the original cause of action
- D) Only after obtaining permission from the Federal Ministry of Finance

4. Under Section 2 of the Stamp Act, 1899, when is an instrument considered "duly stamped"?

- A) When it is notarized by an Oath Commissioner
- B) When it bears an adhesive or impressed stamp of not less than the proper amount affixed in accordance with law
- C) When it is registered with the State Bank of Pakistan
- D) When it is signed by two independent male witnesses

Answer Key

- 1. A — The Limitation Act operates on the principle that courts will not assist indolent claimants who acquiesce or sleep over their legal rights beyond the prescribed period
- 2. B — Section 3 mandates that every suit instituted after the prescribed period shall be dismissed, even if limitation is not pleaded as a defense
- 3. B — Section 6 provides that where a person is under legal disability (minority, insanity, idiocy), limitation runs after the disability ceases
- 4. B — An instrument is "duly stamped" when it bears an adhesive or impressed stamp of not less than the proper statutory amount used in accordance with law

End of Quiz

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