

تمام کلاسز کی حل شدہ مشقیں MrPakistani ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Allama Iqbal Open University Solved Assignments Spring 2026

| | |
|--------------------|----------------------------------|
| Course Code: | 1414 Code |
| Course Name: | Fundamental of Money and Banking |
| Class: | BS/AD |
| Total Credit Hours | 3 |
| Total Assignments | 2 |

گھر بیٹھے حل شدہ مشقیں، گیس پیپرز، کتابیں اور خلاصے حاصل کرنے کے لیے رابطہ کریں واٹس ایپ نمبر: 03036940016

نوٹ: ہم طلبہ کے لیے جامع اور معیاری تعلیمی خدمات فراہم کرتے ہیں۔ ہماری خدمات میں علامہ اقبال اوپن یونیورسٹی کے حل شدہ اسائنمنٹس، گیس پیپرز، سابقہ پرچے، تازہ ملازمتوں کی معلومات، آن لائن سی وی تیار کرنا، ملازمت کے لیے درخواست دینا، یونیورسٹی داخلوں میں رہنمائی اور درخواست جمع کروانا شامل ہیں۔ اس کے علاوہ یونیورسٹی سے متعلق طلبہ کے ہر قسم کے تعلیمی اور رہنمائی کے کام میں مکمل تعاون فراہم کیا جاتا ہے تاکہ طلبہ کو ایک ہی جگہ پر تمام ضروری سہولیات میسر آسکیں۔



واٹس ایپ گروپ جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



واٹس ایپ چینل جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔

Assignment 2

Q.1 What is a bank? Explain the various kinds of banks operating in Pakistan in detail.

Definition of Bank

A bank is a financial institution that accepts deposits and lends advances and provides other related services. A general definition of a bank is: "Bank is an institution which gets loans to lend and, in this way, creates credit." A bank is an intermediate party between the borrower and lender. It borrows from one party and lends to another.

Generally, a bank performs the following functions:

- Acceptance of deposits
- Advancement of loans
- Issues and pays cheques
- Transfers money from one place to another

Kinds of Banks Operating in Pakistan

i. Central Bank: The central bank does not deal directly with general public but acts as regulator of other banks. Its main function is to regulate monetary policy and control the working of all commercial banks for proper regulation of monetary and economic policy. A central bank has sole authority for issuing currency. In Pakistan, the State Bank of Pakistan serves as the central bank.

ii. Commercial Bank: A commercial bank's main objective is to earn profit by lending to eligible businesses. Banks receive deposits from people and pay interest, then lend a portion of those deposits to people who need money and charge higher interest. Commercial banks also perform functions like collecting cheques, providing safe lockers, and transferring money. Examples in Pakistan include National Bank of Pakistan, Habib Bank Limited, United Bank Limited, and Allied Bank Limited.

iii. Exchange Bank: Exchange banks provide foreign exchange to importers and exporters of the country. Main functions include discounting of foreign bills, helping import and export trade, and transferring money from one country to another.



تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

iv. Industrial Bank: These banks are established for the promotion of the industrial sector of the country. They provide loans for the setup of new industries or the extension of existing industries. The Industrial Development Bank of Pakistan (IDBP) is an example of an industrial bank in Pakistan.

v. Mortgage Bank: These banks provide financing for buying property including houses, flats, and shops on an installment basis and charge interest. The House Building Finance Corporation (HBFC) is a major example of a mortgage bank in Pakistan.

vi. Investment Bank: Investment banks deal in the sale and purchase of securities and finance long-term projects against higher interest rates. These banks work mainly in capital markets to facilitate customers in buying securities.

vii. Agriculture Bank: Agriculture banks are formed for the development of the agriculture sector by providing finance for the purchase of machinery and other tools. The Zarai Tarqati Bank of Pakistan (ZTBL) is working as an agricultural bank in Pakistan.

viii. Consumer Bank: This is a modern form of bank that provides loans for the purchase of consumer goods. The basic purpose is to provide short-term loans for basic consumer goods like electronic items.

ix. Foreign Bank: Foreign banks are owned by foreign-based shareholders and provide services in another country.

x. Domestic Bank: These banks are owned by local shareholders and provide services in their own country of origin as commercial or other types of banks.

xi. Saving Bank: These banks are established for collecting savings by gathering money that is lying idle with people. The Directorate of National Savings is working in Pakistan on this pattern for promoting savings.

xii. Cooperative Bank: These banks are formed to facilitate small farmers or workers to increase their income level. Usually, governments support these types of banks by providing subsidized credit.

Q.2 What are the different types of bank accounts offered by commercial banks to their clients?

Bank Accounts Defined



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](#)

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Bank accounts refer to a financial arrangement between an account holder and a bank. People put their money in their accounts for different purposes, and banks use deposits for investment purposes or for loan making. Depending on the duration of deposits and the terms and conditions attached to an account, a commercial bank can open various types of personal and corporate accounts to provide services to different persons.

Types of Bank Accounts

1. Saving Account: Saving accounts are suitable for salaried persons. This is an interest-bearing account. Banks may limit the number of withdrawals from saving accounts.

Features of Saving Account:

- Account holders can use cheques for withdrawal of money
- Bank pays profit after every six months
- Bank issues passbook and cheque book
- Zakat is deducted on saving accounts
- Certain withdrawal rules are determined by the bank
- Bank issues statement of account after regular intervals

2. Current Account: Current accounts are also known as running accounts. Current accounts are generally suitable for businessmen because they can withdraw money without notice. This is an active account for frequent deposits and withdrawals by cheque.

Features of Current Account:

- Suitable for businessmen
- Opened with minimum amount fixed by the bank
- Cheques are used to withdraw money
- No restriction on withdrawals
- Bank does not pay profit on current accounts
- Overdraft facility is provided to current account holders on interest
- Zakat is not deducted

3. Fixed Deposit Account: Persons who have surplus money for a long period can deposit it in a fixed account. Banks offer high rates of interest on deposited amounts. Amounts can only be withdrawn after maturity on the fixed date.

Features of Fixed Deposit Account:

- Suitable for people with surplus money for long periods
- Amount deposited remains fixed for the maturity period



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](#)

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

v. Deposit Slip: A deposit slip is used for depositing money in the bank. The account holder makes an initial deposit when opening an account.

vi. Issuance of Cheque Book: When the account is opened, the bank officer issues a cheque book for withdrawal or payment purposes.

Q.3 Explain in detail the concept of the five Cs of credit and the process to obtain a bank loan.

Bank Credit Analysis

Credit analysis by a lender is used to determine the risk associated with making a loan. Regardless of the type of financing needed, a bank or lending institution will be interested in both business and personal financials. While giving credit to a person or business, a bank conducts credit analysis to make appropriate lending decisions.

The Five Cs of Credit

Credit analysis is governed by the "5 Cs": character, capacity, condition, capital, and collateral.

i. Character: Banks need to know that borrowers and guarantors are honest and have integrity. Additionally, the banker needs to be confident that the applicant has the background, education, industry knowledge, and experience required to successfully operate the business. Lending institutions may require a certain amount of management and/or ownership experience. As history is the best predictor of the future, a lender will examine the personal credit of all borrowers and guarantors involved in the loan.

ii. Capacity (Cash Flow): Banks want to know that a business is able to repay the loan. The business should have sufficient cash flow to support its business expenses and debts comfortably while also providing principals' salaries sufficient to support personal expenses and debts. Examining the payment history of current loans and expenses is an indicator of the borrower's reliability to make loan payments.

iii. Condition: The lender needs to understand the condition of the business, the industry, and the economy. The lender will want to know if the current conditions of the business will continue, improve, or deteriorate. Furthermore, the lender will want to know how the loan proceeds will be used including working capital, renovations, or additional equipment.



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](#)

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

eligibility of the applicant. Documents for making a loan application should be verified and submitted in a timely manner for processing to the bank.

Step 5: Loan Approval: At the last step, the loan application of a person is approved by considering various factors including repayment capacity of the business, amount of loan, rate of interest, and other terms and conditions. The loan application is approved by the manager of the bank by evaluating it according to defined criteria. Once a loan application is approved, the amount of loan is credited to the account of the business, which can use it for meeting functional needs.

Q.4 What is a central bank? How does it control the supply of money? Briefly discuss the role and functions of the State Bank of Pakistan.

Introduction to Central Bank

A central bank is an independent institution that manages a state's currency, money supply, and interest rates. The goal of a central bank is to stabilize the national currency by keeping unemployment low and inflation at the lowest possible levels. A central bank has authority to supervise the activities of commercial banks.

Definitions:

- R.P. Kent: "Central bank is defined as an institution charged with the responsibility of managing the expansion and contraction of the volume of money in the interest of the general public welfare."
- Hawtrey: "A central bank is to help, control and stabilize the monetary and banking system."
- W.A. Shaw: "A bank which controls credit."

In simple words, the central bank is the bank that controls monetary policy and regulates the banking sector in a country. It is owned by the government of the country in which it is established. The central bank has sole authority for note issue, makes policies for commercial banks, gives advice to government important for economic development, and can contract or expand the supply of money to control inflation or deflation.



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](#)

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

dominating the financial sector. The purpose of establishing the State Bank of Pakistan was the issuance of independent currency and control of the flow of money supply. Governor General of Pakistan Quaid-e-Azam Muhammad Ali Jinnah issued the order for establishment of the State Bank of Pakistan on July 1, 1948. This order was substituted by the State Bank of Pakistan Act 1956.

Management of SBP: The board that regulates policies consists of one Governor, one Deputy Governor, and nine directors. There is also an executive committee empowered to work on behalf of the directors. The central bank has 14 different departments with almost 5000 employees.

Role and Functions of State Bank of Pakistan:

i. Regulator for Commercial Banks: The SBP supervises the working of all commercial banks. It provides clearing house facilities and acts as the lender of last resort by providing loans in difficult situations. It also helps stabilize credit worthiness for banks. Policies developed by the SBP are compulsory to be followed by commercial banks.

ii. Assistance to Government: The central bank acts as an advisor to the government. It provides loans to the government for different financing needs. The SBP represents the government in international markets and advises the government to make policy according to existing monetary and economic situations.

iii. Controller of Money Supply: The SBP supervises the monetary system and controls the supply of money to cater to inflation or deflation. It also maintains the value of currency for price stability. In inflationary situations, the central bank contracts the supply of money, and in deflation, it expands the supply of money.

iv. Stability in Exchange Rate: The SBP is responsible for maintaining the exchange rate for stable value of money and price stability. When the exchange rate of currency is stabilized, the purchasing power of the general public is enhanced and the overall economy grows.

v. Distribution of Credit: The SBP develops policies for allocation of credit among different sectors of the economy to develop a balanced economy. It also helps government implement its credit plans and goals. It advances subsidized loans through other banks for development of underdeveloped areas.

vi. Training: Staff training is very important for stable growth of the banking industry. The SBP, through its training institution, the National Institute of Banking and Finance, provides training to employees according to modern technology requirements.

SBP Banking Services Corporation (SBP-BSC)



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](#)

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

The SBP Banking Services Corporation was established as a wholly owned subsidiary of the State Bank of Pakistan in January 2002 under the SBP Banking Services Corporation Ordinance 2001. As an operational arm of the Central Bank, it manages currency, foreign exchange operations, and foreign exchange adjudication; provides banking services to federal and provincial governments; conducts development finance activities; implements export refinance schemes; and performs agency functions like sale and purchase of national prize bonds.

Q.5 Write a note on the following:

(i) Islamic Banking

Definition and Concept: Islamic banking is consistent with the principles of Shariah and its practical application through the development of Islamic economics. Islamic Shariah Law prohibits acceptance of amounts in the form of interest, which is also known as Riba. According to the Constitution of 1973, Islam was declared the state religion, and steps should be taken to enable Muslims to manage their lives in accordance with the teachings of Islam as set by Islam and Sunnah.

History of Islamic Banking in Pakistan: The process of wide Islamization of the banking system in Pakistan started after a declaration in February 1979. The government took the following steps for removing interest from the economy:

- In February 1979, the operations of three institutions (Investment Corporation of Pakistan ICP, National Investment Trust NIT, and House Building Finance Corporation HBFC) were targeted for reorientation for elimination of interest.
- In 1981, the government directed all banks to open profit and loss sharing accounts along with interest-bearing accounts, giving customers the choice to deposit money either in profit and loss sharing accounts or interest-bearing accounts.
- In 1981, an ordinance was promulgated for the establishment of Modaraba companies and flotation of Modaraba certificates.
- On July 1, 1982, under the technique of Musharaka, banks could provide finance to trade and industry for meeting working capital requirements.
- On July 1, 1985, all banks in Pakistan were made interest-free. No bank could receive deposits other than interest-free. Existing deposits were also converted based on profit and loss sharing.

The Governor of the State Bank of Pakistan has stated that interest-free Islamic banking and interest-based banking run parallel, and it is up to the customer to choose either Islamic interest-



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](#)

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

free banking or deposit money under interest-based banking. A Shariah Board was established at SBP which advises SBP about regulations pertaining to Islamic banking. This board consists of five members: two Shariah scholars, one chartered accountant, one lawyer, and one banker.

Main Modes of Islamic Financing:

1. Musharaka: Musharaka is a non-interest-based agreement between two or more parties who agree to combine their resources for profit making. This agreement is between the bank and its clients for carrying a business for a specific agreed time period. Profit and losses are shared according to the ratio as per the agreement.

Key features of Musharaka include:

- **Capital:** Capital contributed by partners must be clearly mentioned in the agreement because further working and profit distribution is based on investment made by partners.
- **Management:** All partners have the right to take part in management. If partners agree that affairs of management are managed by one of them, then other partners only share profit up to their investment.
- **Distribution of Profit or Loss:** The ratio of profit or loss for each partner must be determined according to profit or loss earned by business. Fixed lump sums are not paid to anyone.

2. Modaraba: Modaraba means a business in which some partners contribute capital and the Modarab (manager) contributes managerial skills. Profit sharing among partners is done according to contribution made by each partner and the ratio mentioned in the agreement.

Key features of Modaraba include:

- It is an agreement where one party provides managerial skills and another provides capital
- Registered under Modaraba Companies Ordinance 1980
- Profit/loss shared according to agreed ratio
- Modaraba Management Company is regulated by Registrar of Modaraba, SECP, and religious board
- Clearance certificate must be obtained from religious board that business is not against Islamic laws

3. Ijarah (Leasing): Ijarah is an agreement of Islamic banking for long-term investment. An owner (Lessor) leases assets to a lessee for some specific time and receives rent. Ownership of the asset remains with the lessor. The lessee has only the right to use the property against charges to pay.

Features of Ijarah include:

- **Tangible Asset:** To lease specific goods or assets like property and transport



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](#)

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

- **Labor:** To lease out self-skills; workers that work only for the interest of a particular employer and do not have rights to work for others during that time
- **Description of Assets:** Assets are described in advance. If assets are not available during the contract, they must be delivered at a specific date

(ii) Digital Banking (Electronic Banking)

Definition: Electronic banking, also known as internet banking, enables customers to conduct financial transactions through financial institution websites. With the help of electronic banking, customers can conduct various transactions from any place. It not only provides ATM facilities but also provides all other banking facilities like payments.

Now customers demand 24-hour banking from anywhere. Due to internet technology, the entire banking structure has changed. Banking services have become economical due to technology, saving time and money. Online banking facilities are provided by a large number of commercial banks. All banks provide numerous facilities to attract customers. Banks are quite aware of the changing needs of customers and realize that to compete, they must provide electronic banking facilities to their customers.

Forms of Electronic Banking:

i. Internet Banking: This refers to the provision of funds receipt and payment services through the internet on the particular website of the bank. Almost all commercial banks have developed interactive websites to facilitate customers to access their accounts from their homes and make desired transactions in online mode.

ii. Mobile App Based Banking: Mobile application-based banking is a modern concept of digital banking in which a specialized mobile application is developed and customers can install that application on their mobile phones. This application enables customers to access their accounts from their mobiles, and receipts and payments can be made through this mode.

iii. Phone Banking: Phone banking enables customers to access their accounts from mobiles through special interfaces developed with the help of telecom companies. It is a relatively older concept than app-based banking, and the majority of banks are now shifting their digital operations towards app-based mobile banking.

iv. ATM (Automated Teller Machines): ATMs are used for many banking services. Usually installed at bank branches and shopping malls, these machines disburse cash to desired customers, and funds can be transferred through them in an easy way.

Benefits of Electronic Banking:



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](#)

