

STATE BANK OF PAKISTAN



PRUDENTIAL REGULATIONS FOR BANKS

**(Updated upto January 31, 2002)
Fourth Edition**

BANKING SUPERVISION DEPARTMENT

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Preface

The existing Prudential Regulations in respect of various aspects of operations of commercial banks have been reviewed in the light of on-going process of changes in the financial sector. The fourth edition of the Prudential Regulations containing therein all the amendments issued from time to time has been consolidated and issued herewith for ease of reference. These Regulations do not supersede margin restrictions and other directives issued by the State Bank of Pakistan from time to time in respect of areas not covered by these Regulations. Any violation or circumvention of these Regulations shall render the bank/officer(s) concerned liable for penalties under the Banking Companies Ordinance, 1962.

Banking Supervision Department

REGULATION-I
LIMIT ON BANK'S EXPOSURE TO A SINGLE PERSON

¹The total outstanding financing facilities by a banking company to any single person shall not at any point in time exceed 30% of the bank's unimpaired capital and reserves subject to the condition that the maximum outstanding against fund based financing facilities do not exceed 20% of the unimpaired capital and reserves. In the case of branches of foreign banks operating in Pakistan, the maximum exposure limit of 30% shall be calculated on the basis of their assigned capital maintained under section 13(3) of the Banking Companies Ordinance, 1962 free of all losses and provisions, provided that maximum exposure on the basis of fund-based facilities shall be 20% of the capital maintained under section 13(3) of the Banking Companies Ordinance, 1962 or Rs 12 million whichever is higher.

2. ⁸No banking company shall:

- (a) make any loans or advances against the security of its own share; or
- (b) grant unsecured loans or advances to, or make loans and advances on the guarantee of:
 - (i) any of its directors;
 - (ii) any of the family members of any of its directors;
 - (iii) any firm or private company in which the banking company or any of the persons referred to in (i) or (ii) is interested as director, proprietor or partner; or
 - (iv) any public limited company in which the banking company or any of the persons as aforesaid is substantially interested; and
 - (v) its Chief Executive and its shareholders holding 5% or more of the share capital of the bank, including their spouses, parents, and children or to firms and companies in which they are interested as partners, directors or shareholders holding 5% or more of the share capital of that concern.
- (c) make loans or advances to any of its directors or to individuals, firms or companies in which it or any of its directors is interested as partner, director or guarantor, as the case may be, its Chief Executive and its shareholders holding 5% or more of the share capital of the bank, including their spouses, parents, and children or to firms and companies in which they are interested as partners, directors or shareholders holding 5% or more of the share capital of that concern without the approval of the majority of the directors of that banking company excluding the director concerned.

1 BCD Circular No. 15 dated August 29, 1992.

8 BPRD Circular Letter No. 31 dated November 6, 1995.

3. ¹The term 'person' shall include any individual, association or body of individuals, firm, or company whether incorporated or not and any other juridical person.

4. ¹⁴In arriving at per party exposure under this regulation:

- A) 90% of the following shall be deducted;
 - (i) deposits of the party with bank under lien;
 - (ii) face value of FIBs lodged by the party as collateral; and
 - (iii) Pak. Rupee equivalent of face value of Special US Dollar Bonds converted at official rate, lodged by the borrower as collateral.
- B) ¹Weightage of 50% shall be given to;
 - (i) documentary credits opened by banks; and
 - (ii) guarantees / bonds other than repayment guarantees.

5. ¹For the purposes of paras 1 & 2 above accommodation shall mean and include:

- (a) Any form of loans and advances or credit facilities including bills purchased and discounted.
- (b) Any loans and advances or bills purchased or discounted extended to another person on the guarantee of the person.
- (c) Subscription to or investment in shares, Participation Term Certificates, Term Finance Certificates or any other commercial paper by whatever name called (at book value) issued or guaranteed by the persons.
- (d) Any financing obligation undertaken on behalf of the person under a letter of credit including a stand-by letter of credit, or similar instrument.
- (e) Loan repayment guarantees issued on behalf of the person.
- (f) Any obligations undertaken on behalf of the person under any other guarantees.
- (g) Acceptance / endorsements made on account.
- (h) Any other liability assumed on behalf of the client to advance funds pursuant to a contractual commitment.

¹BUT SHALL NOT INCLUDE:

- (i) Loans and advances given to the Federal or Provincial Governments or any of their agencies under the commodity operations programme of the Government.

1 BCD Circular No. 15 dated August 29, 1992.

14 BPRD Circular No. 1 dated January 9, 1999.

- (ii) Loans and advances (including bills purchased and discounted) given to Federal / Provincial Government, or guaranteed by the Federal Government.
- (iii) Pre-shipment / post-shipment credit provided to finance exports of goods covered by letters of credit / firm contracts.
- (iv) Letters of credit established for the import of plant and machinery.
- (v) Obligations under letters of credit and letters of guarantee to the extent of the cash margin retained by the bank.
- (vi) Letters of credit, which do not create any obligation on the part of the bank to make payments on account of imports.
- (vii) The single person limit does not apply to facilities provided to banks.

REGULATION-II

LIMIT ON BANK'S EXPOSURE AGAINST CONTINGENT LIABILITIES

¹Contingent liabilities of a bank shall not exceed at any point in time 10 times of its paid-up capital and general reserves (free of losses). In case of branches of foreign banks operating in Pakistan, capital will mean capital maintained under section 13(3) of the Banking Companies Ordinance, 1962. Following shall not constitute contingent liabilities for the purpose of this regulation:

- (a) Bills for collection.
- (b) Forward foreign exchange contracts.
- (c) ¹⁴Obligations under Letters of Credit and Letters of Guarantee to the extent of cash margin retained by the bank.
- (d) ¹⁴Letters of Credit / Guarantee issued on behalf of the Federal / Provincial Government and established through State Bank of Pakistan provided payment is guaranteed.

Weightage of 50% shall be given to bid / mobilization advance / performance bonds.

2. ⁵A guarantee which does not appear in the books maintained in Pakistan by a foreign bank and if invoked does not require the said bank in Pakistan to honour the same, shall not be counted towards determining exposure for the purpose of this regulation.

3. ⁷Claims other than those related to provision of facilities (fund based or non-fund based) to banks' constituents may also be excluded for the purpose of this regulation.

1 BCD Circular No. 15 dated August 29, 1992.

14 BPRD Circular No. 8 dated April 11, 1998.

5 BPRD Circular Letter No. 12 dated May 3, 1995.

7 BPRD Circular Letter No. 20 dated July 27, 1995.

REGULATION-III

LIMIT ON BANK'S EXPOSURE AGAINST UNSECURED ADVANCES

²⁹No bank shall provide financing facility in any form of a sum exceeding Rs 100,000/- (Rupees one hundred thousand only) and in case of credit cards Rs 500,000/- (Rupees five hundred thousand only) to any one individual or person without obtaining realizable securities of the value not below the outstanding amount. Financing facilities granted without securities including those granted against personal guarantees shall be deemed as 'clean' for the purpose of credit regulations. Provided further that:-

- (a) at the time of granting a clean facility, banks shall obtain a written declaration to the effect that the borrower in his own name or in the name of his family members, has not availed of such facilities from other banks so as to exceed the prescribed limit of Rs 100,000/- and in case of credit cards Rs 500,000/- in aggregate;
- (b) no clean facility shall be granted to frustrate the objective of credit restrictions in force for the time being; and
- (c) the purpose for which a clean facility is sanctioned shall be expressly stated in the sanction letter.

2. For the purpose of this regulation following shall be excluded / exempted from the per party limit of Rs 100,000/- on clean facilities:

- a) Facilities provided to finance the export of commodities eligible under Export Finance Scheme.
- b) Financing covered by the Export Credit Guarantee Insurance Scheme.
- c) Loans / advances given to the employees of a bank in accordance with their entitlement.
- d) Loans / advances exempted by the State Bank of Pakistan from time to time.

3. The aggregate exposure of a bank against all its clean facilities shall not, at any point in time, exceed the amount of the bank's capital and general reserves (free of losses).

REGULATION-IV

LINKAGE BETWEEN A BORROWER'S EQUITY AND TOTAL BORROWING FROM BANKS

¹While granting any accommodation, banks shall ensure that the total accommodation availed by any borrower from banks / financial institutions does not exceed 10 times of the capital and reserves (free of losses) of the

²⁹ BSD Circular No. 14 dated March 26, 2001.

¹ BCD Circular No. 15 dated August 29, 1992.

borrower as disclosed in its audited accounts. However, a borrower who is prepared to inject fresh equity, irrespective of the fact that its equity is negative, is eligible to obtain finance from a banking company to the extent of 10 times of the fresh injected equity.

2. ¹For the purpose of this regulation:

- (a) ²Accommodation shall have the same meaning as in Prudential Regulation-I but shall not include non-fund based facilities.
- (b) Subordinated loans shall be counted as equity of the borrower.
- (c) Export finance and finance provided to ginning and rice husking factories and finance provided on the basis of lien on foreign currency deposits shall be excluded from the borrowings. The borrowers availing this relaxation shall plough back 20% of the net profit each year until such time that they are able to borrow without this relaxation.
- (d) ¹⁵Revaluation reserves determined by approved firms of Chartered Accountants / Cost and Management Accountants in accordance with International Accounting Standards would also count as equity. However, the revaluation reserves so determined are required to be reflected in the balance sheets of the borrowers, which are required to be duly audited by the approved firms.

3. ¹Every bank shall, as a matter of rule, obtain a copy of accounts relating to the business of each of its borrower for analysis and record in the following manner. However, this shall not apply to loans not exceeding Rs 500,000/- per borrower.

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|--|--|
| (a) Where the bank's exposure does not exceed Rs 2 million. | Accounts duly signed by the borrower. |
| (b) ¹⁵ Where the exposure exceeds Rs 2 million but does not exceed Rs 10 million. | Accounts duly signed by the borrower and countersigned by; <ul style="list-style-type: none"> (i) the Internal Auditor of the bank or; (ii) a Chartered Accountant or; (iii) a Cost and Management Accountant in case of a borrower other than a public company or a private company which is a subsidiary of a public company. |

1 BCD Circular No. 15 dated August 29, 1992.

2 BRD Circular Letter No. 41 dated December 16, 1992.

15 BPRD Circular Letter No. 34 dated December 16, 1998 and Letter No.BPRD/RU-20/121-04/1239/99 dated January 27, 1999.

- (c) ¹⁵Where the exposure exceeds Rs 10 million.
- Accounts duly audited by;
- (i) the practicing Chartered Accountant or;
 - (ii) the practicing Cost and Management Accountant in case of a borrower other than a public company or a private company which is a subsidiary of a public company.

REGULATION-V
MAINTENANCE OF CURRENT AND DEBT-EQUITY RATIOS

¹⁴While granting / renewing financing facilities, banks shall ensure that the current assets to current liabilities of the borrower must not be lower than 1:1. Current maturities of long term debt not yet due for payment may be excluded from the current liabilities for the purpose of calculating this ratio. Lease rental receivable within the next twelve months as disclosed in the notes to the annual audited accounts shall be treated as current assets for the purpose of calculating this ratio.

2. Fresh / additional facilities in the form of long-term debts shall be provided on the basis of a debt-equity ratio not exceeding 60:40 provided where a different debt-equity ratio has been laid down by the Government, the ratio laid down by the Government shall apply.

3. Financing facilities to the individual borrowers not exceeding Rs 500,000/- per borrower shall be exempt from the application of this regulation.

4. ³For the purpose of this regulation subordinated loans shall be counted as equity of the borrower.

REGULATION-VI
FINANCING FACILITIES AGAINST SHARES

²⁰No bank shall:

- a) Provide unsecured credit to finance subscription towards floatation of share capital of public limited companies.
- b) Allow financing facilities, whether fund based or non-fund based, against the shares of companies not listed on the Stock Exchange(s).

15 BPRD Circular Letter No. 34 dated December 16, 1998 and Letter No.BPRD/RU-20/121-04/1239/99 dated January 27, 1999.

14 BPRD Circular No. 8 dated April 11, 1998.

3 BPRD Circular Letter No. 6 dated July 21, 1994.

20 BPRD Circular No. 34 dated October 20, 1999.

- c) Provide loans and advances to any public limited company against the security of its own shares.
- d) Provide financing against 'sponsor director's shares' (issued in their own name or in the name of their family members) of private banks.
- e) Provide financing to any one person (whether singly or together with other family members or companies owned and controlled by him or his family members) against shares (other than the sponsor shares) of any commercial bank in excess of 5% of paid-up capital.
- f) Allow financing facilities, whether fund based or non-fund based, against the shares of companies that are not in the Central Depository System.

2. ³⁴Facilities against the shares of listed companies shall be subject to minimum margin of 25% of their average market value of the preceding 12 months. Banks are however, free to set higher margin requirements keeping in view other factors.

3. ³³Banks may acquire / purchase upto 5% of the total paid-up shares of any Non-Bank Financial Institution without any approval from the State Bank of Pakistan. In case of acquisition / purchase above 5% of the total paid-up shares, banks are required to approach the State Bank of Pakistan for seeking its prior clearance.

4. ²⁰Each bank shall furnish a statement on half yearly basis showing finances provided by it against pledge of shares latest by 20th January and 20th July for each preceding half-year as per prescribed format.

REGULATION-VII

DEALING WITH DIRECTORS, MAJOR SHARE-HOLDERS AND EMPLOYEES OF THE BANKS

¹Banks shall not without the prior approval in writing of the State Bank of Pakistan enter into leasing, renting and sale / purchase of any kind with their directors, officers, employees or persons who either individually or in concert with family members beneficially own 10% or more of the equity of the bank. ³⁶This restriction does not apply in case of purchase of vehicles by the directors, officers or employees of banks which remained in their own use for a period of not less than three years provided that such sale is covered under the employees service rules and is effected by the banks at book value at the date of such transaction.

34 BSD Circular No. 32 dated September 14, 2001.

33 BSD Circular No. 22 dated June 1, 2001.

20 BPRD Circular No. 34 dated October 20, 1999.

1 BCD Circular No. 15 dated August 29, 1992.

36 BSD Circular Letter No. 28 dated October 22, 2001.

REGULATION-VIII
CLASSIFICATION AND PROVISIONING FOR ASSETS

²²Every bank shall observe prudential guidelines given hereunder in the matter of classification of its asset portfolio and provisioning there-against.

LOANS/ ADVANCES:

(I) SHORT TERM FINANCING FACILITIES:

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
1. OAEM (Other Assets Especially Mentioned).	Where mark-up/ interest or principal is overdue (past due) by 90 days from the due date.	Unrealized mark-up/ interest to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	No Provision is required.
2. Substandard.	Where mark-up/ interest or principal is overdue by 180 days or more from the due date.	As above.	Provision of 20% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.

22 BPRD Circular No. 9 dated April 27, 2000.

3. Doubtful.	Where mark-up/ interest or principal is overdue by one year or more from the due date.	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
4. Loss.	(a) Where mark-up/ interest or principal is overdue beyond two years or more from the due date.	As above.	Provision of 100% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.

(b) Where Trade Bills (Import/Export or Inland Bills) are not paid/adjusted within 180 days of the due date.	As above.	As above.
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(II) **LONG TERM FINANCING FACILITIES:**

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
1. OAEM (Other Assets Especially Mentioned).	Where mark-up/ interest or principal is overdue (past due) by 90 days from the due date.	Unrealized mark-up/ interest to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	No Provision is required.
2. Substandard.	Where installment of principal or interest/ mark-up is overdue by one year or more.	As above.	Provision of 20% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.

3. Doubtful.	Where installment of principal or interest/ mark-up is overdue by two years or more.	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
4. Loss.	Where installment of principal or interest/ mark-up is overdue by three years or more.	As above.	Provision of 100% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.

(III) ³⁰CREDIT CARDS:

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
1. Doubtful.	Where mark-up/ interest or principal is overdue (past due) by 90 days from the due date.	Unrealized mark-up/ interest to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	Provision of 50% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law.
2. Loss.	Where mark-up/ interest or principal is overdue by 180 days or more from the due date.	As above	Provision of 100% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law.

³¹Note:

a) *Liquid assets mean realizable amount of bank deposits, certificates of deposit, government securities, shares of listed companies, NIT units, certificates of mutual funds, gold ornaments, inventories pledged to banks with possession with ‘perfected lien’ duly supported with flawless documentation.*

b) *Classified loans / advances that have been guaranteed by the Government would not require provisioning, however, markup / interest on such accounts shall be taken to suspense account instead of income account.*

2. ²²In addition to the above time based criteria, subjective evaluation of performing and non-performing credit portfolio shall be made for risk assessment and where considered necessary the category of classification determined on the basis of time based criteria shall be further downgraded. Such evaluation shall be carried out on the basis of adequacy of security inclusive of its realizable value, cash flow of borrower, his operation in the account, documentation covering advances and credit worthiness of the borrower etc.

30 BSD Circular No. 15 dated March 26, 2001.

31 BSD Circular Letter No. 5 dated March 29, 2001.

22 BPRD Circular No. 9 dated April 27, 2000.

3. The rescheduling / restructuring of non-performing loans shall not change the status of classification of a loan/ advance etc. unless the terms and conditions of rescheduling / restructuring are fully met for period of at least one year (excluding grace period, if any) from the date of such rescheduling / restructuring. Accordingly, banks are directed to ensure that status of classification as well as provisioning is not changed in relevant reports to the State Bank of Pakistan merely because of the fact that a loan has been restructured or rescheduled. However, while reporting to the Credit Information Bureau (CIB), such loans / advances may be shown as 'rescheduled / restructured' instead of 'default'.

4. Banks shall classify their loans / advances portfolio and make provisions there-against in accordance with the time-based criteria prescribed above. However, where a bank wishes to avail of the benefit of collaterals held against loans / advances they can consider the realizable value of assets mortgaged / pledged for deduction from the outstanding principal amount of loan / advance against which such assets are mortgaged / pledged, before making any provision. The realizable value shall be the value that could currently be obtained by selling the mortgaged / pledged asset in a forced / distressed sale conditions. Accordingly, banks shall take into account only forced sale value into consideration while determining the required provisions. Loans / advances against which securities are not available, or which have not been valued according to these guidelines and verified by the external auditors shall continue to be classified and provided for according to the time-based criteria. Banks shall follow the following uniform criteria for determining the realizable value of assets mortgaged / pledged:

- i) Only assets having registered mortgage, equitable mortgage (where NOC for creating further charge has not been issued by bank / NBFIs) and pledged assets shall be considered. Assets having pari-passu charge shall be considered on proportionate basis.
- ii) Hypothecated assets and assets with second charge and floating charge shall not be considered.
- iii) Valuations shall be carried out by an independent professional valuer who should be listed on the panel of valuers maintained by the Pakistan Banks' Association (PBA) for this purpose. PBA shall lay down the minimum eligibility criteria with the prior approval of the State Bank of Pakistan for placement of valuers on the panel to be maintained by it. The valuer while assigning any values to the mortgaged / pledged assets, shall take into account all relevant factors affecting the salability of such assets including any difficulty in obtaining their possession, their location land condition and the prevailing economic conditions in the relevant sector, business or industry. The realizable values of mortgaged / pledged assets so determined by the valuers must have to be a reasonably good estimate of the amount that could currently be obtained by selling such assets in a forced / distressed sale condition. The valuers should also mention in

their report the assumptions made, the calculations / formulae / basis used and the method adopted in determination of the realizable values.

- iv) Valuation shall be done at least once in three years. For example any valuation done on November 01, 1999 would be valid for consideration for accounting periods ending on December 31, 1999, December 31, 2000 and December 31, 2001 and for subsequent accounting periods a fresh valuation would be required. If valuation is older than three years as explained above, a revaluation should be done, otherwise the valuation shall be taken as Nil.
- v) The categories of mortgaged/pledged assets to be considered for valuation alongwith discounting factors to be applied would be as under (no other assets shall be taken into consideration):
 - a) **Liquid Assets:**
Valuation of Liquid Assets, excluding pledged stocks which are dealt with at (d) below, shall be determined by the bank itself and verified by the external auditors. However, in the case of pledged shares of listed companies values should be taken at market value as per active list of Stock Exchange(s) on the balance sheet data and as per guidelines given in the TR-23 issued by the Institute of Chartered Accountants of Pakistan (ICAP). Moreover, valuation of shares pledged against loans/advances shall be considered only if these have been routed through Central Depository Company of Pakistan (CDC), otherwise these will not be admissible for deduction as liquid assets while determining required provisions.
 - b) **Land and Building:**
Valuation of land and buildings would be accepted as determined by the valuers in accordance with criteria given at point 4(iii) above and no further discounting factor would be applied on forced sale value determined by them.
 - c) **Plant and Machinery:**
Entities of classified borrowers shall be divided into following categories at the balance sheet date and discounting factors shall be applied to forced sale value as under:

Category	Discounting factors to be applied to forced sale value
A) In operation.	No discounting factor to be applied.

B) In operation at the time of valuation but now closed / in liquidation.	<ul style="list-style-type: none"> • 15% of forced sale value on the date of closure. • 1st year after closure- 25% of forced sale value • 2nd year-50% of forced sale value.
C) Closed / in liquidation at the time of valuation and no change in situation.	<ul style="list-style-type: none"> • After valuation-1st year 25% of forced sale value. • 2nd year-50% of forced sale value.

d) **Pledged Stocks:**

In case of pledged stocks of perishable and non-perishable goods, forced sale value should be provided by valuers, which should not be more than six months old, at each balance sheet date. The goods should be perfectly pledged, the operation of the godowns should be in the control of the bank and regular valid insurance and other documents should be available. In case of perishable goods the valuer should also give the approximate date when these are expected to be of no value.

- vi) For valuations of mortgaged assets carried out within a period of twelve months prior to December 31, 1999, these may be considered provided they were carried out by an independent professional valuer and revised certificate is obtained from the valuer regarding the forced sale value of the assets as on the date the valuation was carried out. These valuations should then be subject to the discounting percentages and other criteria as laid down in this regulation.
- vii) The values of the mortgaged/pledged assets determined by the valuers shall be subject to verification by the external auditors, who may reject cases of valuation, which in their opinion, do not appear to have been professionally carried out and values determined are unreasonable, or in the case of which valid documentation of mortgage / pledge, supported by legal opinion wherever required, is not available on record.

INVESTMENTS AND OTHER ASSETS:

5. Subjective evaluation of investment portfolio and other assets shall be carried out by the bank. Classification of such assets and provision required thereagainst shall be determined keeping in view the risk involved and the requirements of the International Accounting Standards.

SUBMISSION OF RETURNS:

6. Besides submitting the party-wise annual statements regarding classified loans / advances to our Banking Inspection Department, as is being done currently, banks shall submit a yearly statement giving consolidated position of their classified assets and provisions required there-against to the Banking Supervision Department as per Annexure-I, within three months of the close of their accounting year.

TIMING OF CREATING PROVISIONS:

7. Banks shall review, at least on a quarterly basis, the collectibility of their loans / advances portfolio and shall properly document the evaluations so made. Shortfall in provisioning, if any, determined, as a result of quarterly assessment shall be provided for immediately in their books of accounts by the banks.

VERIFICATION BY THE AUDITORS:

8. The external auditors as a part of their annual audits of banks shall verify that all requirements of Prudential Regulation-VIII for classification of assets and determination of provisions required there-against have been complied with. The State Bank of Pakistan shall also check the adequacy of provisioning during on-site inspection.

REGULATION-IX
MANAGEMENT

¹No member of the Board of Directors of banking company holding 5% or more of the paid-up capital of the banking company either individually or in concert with family members or concerns / companies in which he / she has the controlling interest, shall be appointed in the bank in any capacity save as the Chief Executive of the bank (which should not exceed one in any case) and that no payment shall be made or perquisites provided to any such directors other than traveling and daily allowances for attending meetings of the Board of Directors or its Committees. Provided further that not more than 25% of the total directors can be paid executives of the bank.

2. This regulation shall apply to all banks other than those owned, controlled and managed by the Government.

REGULATION-X
BANK CHARGES

¹Banks are free to determine the rates of charges in respect of various services that they may provide to their constituents. ¹⁴However, banks shall strictly follow the following ranges for rates of charges relating to exports:

EXPORT	MINIMUM	MAXIMUM
1. Processing charges for Export Registration.	Rs 150/-	Rs 200/-

1 BCD Circular No. 15 dated August 29, 1992.
14 BPRD Circular No. 6 dated February 11, 1996.

2. <u>Letters of Credit:</u> (a) Advising.	Rs 250/-	Rs 350/-
(b) Amendment Advising.	Rs 200/-	Rs 250/-
(c) Negotiation of Rupee Bills under Export L/Cs.	Rs 200/-	0.25%
(d) Confirmation.	Rs 250/-	0.25% per quarter or part thereof.
(e) Transfer of Export L/Cs.	Rs 250/-	Rs 350/-
(f) Reimbursement payment to other local banks from Non Resident Rupee Account.	Rs 250/-	Rs 350/-
3. If the documents are sent to other banks for negotiation under restricted L/Cs.	Rs 250/-	Rs 350/-
4. <u>Collections:</u> (i) Clean.	Rs 75/-	Rs 100/-
(ii) Documentary (on which banks do not earn any exchange difference).	Rs 150/-	Rs 200/-
5. ¹⁰ Handling of Duty Draw Back Claims.	Rs 250/- per claim	@ 0.25% per claim
6. Service Charges against export documents sent on collection basis where payment cover is already received in bank's Foreign Currency Accounts.	Paisa 10 per Rs 100/- or Re 1/- per mille.	Paisa 13 per Rs 100/- or Rs 1.30 per mille.

2. ¹It shall be mandatory for each commercial bank to fix its rates of charges on half-yearly basis in advance for the half year January-June and July-December. Each bank shall get its schedule of charges printed and so notified as to be available to its constituents at least 7 days before the commencement of the half year during which the rates shall remain in force at all places of business. The bank shall be required to provide a copy of the printed schedule of charges to the Banking Supervision Department of State Bank of Pakistan before the commencement of the related half-year.

3. ¹⁴Banks shall obtain prior clearance from the State Bank of Pakistan before fixing any charges (relating to exports) other than those mentioned in this regulation.

¹⁰ BPRD Circular No. 15 dated May 19, 1996.

¹ BCD Circular No. 15 dated August 29, 1992.

¹⁴ BPRD Circular No. 8 dated April 11, 1998.

REGULATION-XI
OPENING OF ACCOUNTS

¹Banks shall make all reasonable efforts to determine the true identity of every would be account holder. Towards this end, banks shall institute effective procedure and methods for obtaining proper identification from the new customers.

REGULATION-XII
PREVENTION OF CRIMINAL USE OF BANKING
CHANNELS FOR THE PURPOSE OF MONEY
LAUNDERING AND OTHER UNLAWFUL TRADES

¹Banks shall follow the following guidelines to safeguard themselves against their involvement in money-laundering activities, and other unlawful trades. These will add to or reinforce the precautions, banks may have been taking on their own in this regard: -

- (a) Before extending banking services, banks shall make reasonable efforts to determine the true identity of customer. Particular care should be taken to identify ownership of all accounts and those using safe-custody facilities. Effective procedures should be instituted for obtaining identification from new customers. An explicit policy should be devised to ensure that significant business transactions are not conducted with customers who fail to provide evidence of their identity.
- (b) Banks shall ensure that banking business is conducted in conformity with high ethical standards and that banking laws and regulations are adhered to. It is accepted that banks normally do not have effective means of knowing whether a transaction stems from or forms part of wrongful activity. Similarly in an international context it may be difficult to ensure that cross border transactions on behalf of customers are in compliance with the regulations of another country. Nevertheless banks should not set out to offer services or provide active assistance in transactions, which in their opinion are associated with money derived from illegal activities.
- (c) Specific procedures be established for ascertaining customer's status and his source of earnings, for monitoring of accounts on a regular basis, for checking identities and bonafides of remitters and beneficiaries, for retaining internal record of transactions for future reference. The transactions, which are out of character with the normal operation of the account involving heavy deposits / withdrawals / transfers, should be viewed with suspicion and properly investigated.

1 BCD Circular No. 15 dated August 29, 1992.

- (d) For an effective implementation of banks' policy and procedures, suitable training be imparted to members of staff and they be informed of their responsibility in this regard.
- (e) Banks may make arrangements for setting up an Internal Audit System in order to establish an effective means of testing / checking and compliance with the Bank Policy and procedures established by it.

2. Keeping in view the above principles, banks shall issue necessary instructions for guidance and implementation by all staff members.

REGULATION-XIII

SERVICE CHARGE ON PLS DEPOSIT ACCOUNTS

²⁸All terms and conditions of operation of an account shall be duly made known to the opener of the account at the time of opening of the account. The terms and conditions must be elaborately documented in the account opening form / application and must be signed by the prospective depositor / account holder to signify having been read and understood.

2. All account opening forms shall be filled in by the account holder in duplicate, one copy of which shall be returned to the depositor / account holder duly verified by the authorized official(s) of the branch under proper acknowledgement.

3. Terms and conditions of maintaining an investment account or other deposits for fixed periods, by whatever name called, shall be alterable only with the written consent of the depositor. In case the depositor does not consent to the proposed alterations, the bank shall have the right to close the account after giving 7-days notice to the depositor. ³⁵In order to remove any ambiguity on this account banks are directed that no service charges, whatsoever, can be recovered from any kind of PLS accounts. The banks can, however, recover their cost of maintaining these accounts while working out the rate of return to be offered to the depositors in PLS accounts.

4. Non-remunerative deposit accounts and accounts opened on profit & loss-sharing basis shall not be subject to the levy of any service charges in any form whatsoever.

5. All sums maintained by the depositors with their banks on PLS basis, even if such balances have at any point of time fallen below the prescribed minimum, shall be remunerated as per the rates declared by the banks. The banks can realize the penalty for violating prescribed minimum balance provided the depositor is duly notified and this condition is disclosed at the time of the opening of the account.

28 BSD Circular No. 12 dated March 17, 2001.

35 BSD Circular Letter No. 24 dated October 4, 2001.

6. BPRD Circular No.34 of 1995 in this regard shall be treated as withdrawn.

7. Violation of the above instructions shall be subject to fine equivalent to not less than the sum deducted from the depositor's account.

REGULATION-XIV
PAYMENT OF DIVIDEND

¹No bank shall pay any dividend on its shares unless and until:

- (a) all its capitalised expenses (including preliminary expenses, organization expenses, share selling commission / brokerage, amount of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off; and
- (b) all bad and doubtful debts and other classified assets have been fully and duly provided for in accordance with the Prudential Regulations and to the satisfaction of the State Bank of Pakistan.

REGULATION-XV
**UNDERTAKING OF CASH PAYMENTS OUTSIDE
THE BANK'S AUTHORIZED PLACE OF BUSINESS**

²⁶Banks shall not undertake any business of cash payments at any place other than the authorized place of business except through the installation of Automated Teller Machine (ATM). Banks desirous of installation of ATM or sharing of ATM facilities with other banks at places other than authorized one for providing the facility of cash withdrawals may do so without taking prior approval from the State Bank of Pakistan. However, in each case banks are required to give 15 days advance intimation to the State Bank of Pakistan and in case the State Bank does not convey any reservation on the same during the said 15 days period, it shall be deemed to have approved the same.

REGULATION-XVI
WINDOW DRESSING

¹Banks shall refrain from adopting any measures or practices whereby they would either artificially or temporarily show an ostensibly improved position of bank's accounts as given in their Balance Sheet and Profit & Loss Accounts specially in relation to its deposits and profit. Particular care shall be taken in showing inter-branch and inter-bank accounts accurately and strictly according to their true nature.

1 BCD Circular No. 15 dated August 29, 1992.
26 BSD Circular No. 8 dated February 13, 2001.

REGULATION-XVII
ASSUMING OBLIGATIONS ON BEHALF OF NBFIs

¹Banks shall not issue any guarantee or letter of comfort nor assume any obligation whatsoever in respect of deposits, sale of investment certificates, issue of commercial papers, or borrowings of any non-bank financial institutions. In other words, banks shall not assume any obligation on behalf of any financial institutions including investment banks, leasing companies, modarabas and development finance institutions, etc. in respect of any resources mobilized by them.

REGULATION-XVIII
MINIMUM CONDITIONS FOR GRANT OF FINANCING FACILITIES

⁴When considering proposals for fund based / non-fund based accommodation banks should give due weightage to the credit report relating to the borrower and his group obtained from the Credit Information Bureau of the State Bank of Pakistan. If the credit report indicates over-exposure / default in meeting the obligations and in the opinion of the bank the default / over-exposure is willful or the unit is no longer viable further accommodation may be denied. However, if the default / over-exposure is due to circumstances beyond the control of the borrower and further accommodation would put the borrower back on track and enable it to regularize the position, the bank may consider extending accommodation as it may deem fit.

2. ⁶Borrowers, specially sick units, facing difficulties to regularize their position in accordance with the requirement of Prudential Regulations-IV & V, could sparingly be exempted by the Boards of Directors of the concerned banks only in special cases where there is enough justification to do so to help in rehabilitating the sick unit and recovering the advances made by the bank.

REGULATION-XIX
**HALF YEARLY DATA ON FINANCING FACILITIES UNDER
AUTOMATED PERFORMANCE APPRAISAL SYSTEM (APAS)**

¹¹The particulars / information regarding financing facilities, both fund-based as well as non-fund based, involving a sum of one million rupees or above shall be recorded at the APAS Unit, State Bank of Pakistan.

2. Accordingly, each bank and development finance institution is directed:

- i) that it shall report to the State Bank particulars of any financing facility that it has extended as per the prescribed Returns, on half-yearly basis as at the close of 30th June and 31st December each year; and

1 BCD Circular No. 15 dated August 29, 1992.
4 BPRD Circular No. 15 dated October 27, 1994.
6 BPRD Circular No. 11 dated May 17, 1995.
11 BPRD Circular No. 25 dated July 31, 1996.

- ii) that the information to be provided as per the prescribed Returns shall also include facilities granted in foreign currency equivalent of Pak. rupees one million and above at the foreign branches (including branches in EPZ) of banks incorporated in Pakistan, as well as such facilities granted to Pakistani residents by foreign banks operating in Pakistan and any of their banks' branches abroad.

3. The formats of the prescribed Returns (to be called Data Input Returns) together with explanatory Notes, institutions' codes, and Files Lay Out are as annexed with BPRD Circular No.25 / 96. The Half-yearly Data Input Returns must reach the State Bank within 21 days of the close of the Half-year to which the Returns relate.

4. Data is required to be supplied on computer diskettes. Records lay outs and data capture software may be obtained from APAS Unit of the State Bank of Pakistan.

5. Each bank and development finance institution shall intimate to the Director, Banking Supervision Department, the names of two senior executives who will be responsible for the correctness and authenticity of the data to be supplied on diskettes. Further, each bank shall, intimate the name of the officer (together with his phone & fax numbers) who will serve as a 'Contact Point' for the purposes of the System. The 'Contact Point' shall be the only authorized person to deal with the State Bank on matters relating to the System.

REGULATION-XX
CONTRIBUTIONS AND DONATIONS FOR CHARITABLE, SOCIAL, EDUCATIONAL, AND PUBLIC WELFARE PURPOSES

²¹In terms of Section 41 of the Banking Companies Ordinance, 1962, all banks and Development Finance Institutions shall strictly observe the following rules in the matter of making any donations / contributions for charitable, social, educational or public welfare purposes:

- (i) Only those banks which meet provisioning and capital adequacy requirements prescribed by the State Bank of Pakistan and pay positive rates of return to their depositors can make donations.
- (ii) Every donation or contribution to be made must carry the prior written approval of the Board of Directors.

2. All donations or contributions to be made during the year must be specifically approved by the shareholders in their Annual General Meeting.

3. Banks / DFIs are further directed to expressly disclose in their Annual Accounts the total donation / contribution made during the year alongwith names of donees, to whom total donations/ contributions during the year were made in excess of Rs 100,000/-. In the case of donations where any director

21 BPRD Circular No. 4 dated February 2, 2000.

or his spouse has interest in the donee, the names of such directors, their interest in the donee and the names and addresses of all donees, shall also be given.

4. The auditors of the banks / DFIs shall also report whether the bank/ DFI has complied with all the above requirements in their report to the State Bank in accordance with the guidelines given in BID Circular No.5 dated December 19, 1972 and subsequent amendments thereto.

5. Each bank / DFI shall furnish the State Bank of Pakistan with a statement for each financial year indicating the names of persons and the amount of donation / contribution made to each donee during the year within 30 days of the close of the financial year. This statement must be accompanied with a certificate signed by the Chief Executive that the bank / DFI has met with all the requirements set-out by the State Bank of Pakistan for making donations / contributions.

REGULATION-XXI

I. ¹⁷ASSET MANAGEMENT:

For the purpose of this regulation, Asset Management will constitute the following:

- a) Cash or portfolio management.
- b) All forms of collective investment management.

2. Banks desiring to undertake asset management services can do so through subsidiary company to be formed by them under the laws of Pakistan for the exclusive purpose of undertaking such activities. The minimum paid-up capital of such a subsidiary shall be not less than Rs 100 million. The companies to be set-up for the purpose shall be public limited companies which may commence business with a bank's equity holding of 51% in the company's paid-up capital. The balance 49% share capital shall be offered to the general public.

3. Banks which have been consistently meeting the liquid assets requirements and other credit disciplines during the latest 52 weeks shall only be eligible to set-up such subsidiaries after obtaining prior clearance of the Memorandum & Articles of Association of the proposed company from the State Bank of Pakistan. Subsequent amendments in the Memorandum & Articles of Association of such companies will also require similar prior clearance from the State Bank of Pakistan.

4. The transactions undertaken / services provided by the subsidiaries set-up for asset management purposes should not create any financial

¹⁷ BPRD Circular No. 13 dated April 9, 1999 and
BPRD Circular Letter No. 35 dated August 5, 1999.

obligation whether contingent or otherwise on the balance sheet of the holding company or otherwise. The said subsidiaries shall not be permitted to:

- a) invest in real estates;
- b) grant credit in any form whatsoever;
- c) hold and invest in more than 1% (one percent) of the paid-up shares of any bank or financial institution; and
- d) invest in the securities of such companies which failed to earn net profit for two financial years out of the preceding three financial years.

5. The holding company shall ensure that subsidiaries do conduct their operations and publish their accounts in accordance with the internationally accepted accounting standards and disclosure requirements, besides meeting the standards set by the domestic regulatory authorities.

6. Before accepting funds from a client, the subsidiary shall notify to the client the avenues of investments available to it for the purpose of deployment of funds. Each asset management deal to be undertaken by the subsidiary shall be documented in the form of a written contract to be called 'Asset Management Contract' expressly stating all the terms and conditions of the deal and duly authenticated by the company and the provider of funds. Each subsidiary shall be required to obtain prior approval of the format of its standard Asset Management Contract from the State Bank of Pakistan.

7. Banks which are presently engaged in fund management business if any are directed to forthwith disclose the total amount of funds provided to them for fund management as 'Asset Management Liabilities' under the head "Other Liabilities" in the balance sheet. Simultaneously, the corresponding assets acquired against the Management Liabilities shall be shown as "Asset Management Assets" under the head "Other Assets" in the balance sheet. All related returns to be submitted to the State Bank of Pakistan must also carry a similar disclosure regarding Asset Management Liabilities & Assets.

8. Banks are further directed to ensure that all existing fund management contracts must be settled on due dates and no bank shall be allowed to undertake any fresh deal for asset management other than through a subsidiary formed for the purpose.

II. FINANCIAL AND INVESTMENT ADVISORY SERVICES:

Banks desiring to undertake Financial and Investment Advisory Services can do so through subsidiary company to be formed by them under the laws of Pakistan for the exclusive purpose of undertaking such activities. The paid-up capital of such a subsidiary shall be not less than Rs 100 million. The companies to be set-up for the purpose shall be public limited companies which may commence business with a bank's equity holding upto 100% but not less than 51% in the company's paid-up capital.

2. Banks which have been consistently meeting the liquid assets requirements and other credit disciplines during the latest 52 weeks shall only be eligible to set-up such subsidiaries after obtaining prior clearance of the Memorandum & Articles of Association of the proposed company from the State Bank of Pakistan. Subsequent amendments in the Memorandum & Articles of Association of such companies will also require similar prior clearance from State Bank of Pakistan.

3. The contracts executed / services provided by the subsidiaries set up for Financial and Investment Advisory Services purpose should not create any financial obligation whether contingent or otherwise on the balance sheet of the holding company or otherwise.

4. The holding company shall ensure that subsidiaries do conduct their operations and publish their accounts in accordance with the internationally accepted accounting standards and disclosure requirements.

5. ²⁴Foreign banks operating in Pakistan can also undertake Financial and Investment Advisory Services if their parent company is incorporated in one of the countries where banking supervision & regulation is of a standard acceptable to the State Bank of Pakistan. Accordingly, foreign banks eligible are required to approach the State Bank of Pakistan for obtaining necessary prior clearance to undertake Financial and Investment Advisory Services.

REGULATION-XXII

RECONCILIATION OF PAK ACCOUNT / INTER-BRANCH ACCOUNTS AND SETTLEMENT OF SUSPENSE ACCOUNT ENTRIES

¹²All entries outstanding in the Inter-Branch Accounts (by whatever name called) and / or Suspense Account must be reconciled / cleared and taken to the proper head of account within a maximum period of 30 days from the date entry is made in the above-named accounts.

2. Entries made in Suspense Account on account of tax at source, advance tax paid, tax recoverable, advance expense on new branches, advance rent paid, legal expenses, mark-up / service charge recoverable, *Qarze Hasna* for marriage, and forward cover fee, may be classified as "Other Assets" and the above instructions shall not be applicable to the foregoing items. Besides, entries relating to frauds and forgeries, cash theft and looted, payments against equity, scrips / debt instruments and contributory payments of capital nature to be capitalized at a later stage shall also be excluded from the purview of the said regulation. The exclusion of entries relating to frauds and forgeries, cash theft and looted will, however, be subject to the condition that the same are cleared immediately on receipt of insurance claims.

3. Banks shall institute an effective internal control system for the operations of Inter-Branch and Suspense Accounts, which ensures reconciliation / clearing of the entries in shortest possible time and also clearly

²⁴ BSD Circular Letter No. 20 dated July 8, 2000.

¹² BPRD Circular No. 9 dated April 10, 1997 and
BPRD Circular No. 8 dated April 11, 1998.

fixes the responsibilities on the official(s) for neglecting the timely reconciliation and clearance.

4. Failure to comply with the above instructions shall render the official(s) responsible for reconciliation and clearance of outstanding entries liable to penalties under the Banking Companies Ordinance, 1962. The State Bank will also direct the bank management to identify the official(s) responsible for failure to comply with the instructions and institute disciplinary action against them.

REGULATION-XXIII

POSTINGS / TRANSFERS OF OFFICERS / EXECUTIVES IN BRANCHES OPERATING ABROAD

¹³All postings and transfers to and from overseas branches of Pakistani commercial banks shall be made on the basis of clearly defined criteria to be developed by their respective Boards of Directors. Banks are required to develop a clearly defined policy of foreign postings and transfers and refer the same to the State Bank of Pakistan for clearance and its enforcement be strictly ensured.

2. Deviations / violations of the defined policy will render the concerned official(s) liable to action under the provisions of Banking Companies Ordinance, 1962.

REGULATION-XXIV

MAINTENANCE OF ASSETS IN PAKISTAN

¹⁸Every bank shall maintain in Pakistan not less than 85% of the assets created by it against such time and demand liabilities as specified in Part-A of Form X (prescribed under Rule 17 of the Banking Companies Rules, 1963). Accordingly, assets held abroad by any bank shall not, at any point in time, exceed 15% of its time and demand liabilities specified in the said Form X. All other assets financed from sources other than time and demand liabilities specified in the said Form X shall be held within Pakistan.

2. Any bank violating the above instructions will make itself liable to action by the State Bank of Pakistan under the relevant sections of the Banking Companies Ordinance, 1962.

REGULATION-XXV

SCALE OF PENALTIES

¹⁹In addition to any other action that the State Bank of Pakistan may institute against any functionary of a bank under section 83 of the Banking

13 BPRD Circular No. 11 dated April 29, 1997.

18 BPRD Circular No. 20 dated May 29, 1999.

19 BPRD Circular No. 21 dated June 9, 1999.

Companies Ordinance, 1962, the following scale of penalties will be applicable in respect of various categories of violations of rules and regulations:

SR. NO.	AREA OF IRREGULARITIES	SCALE OF PENALTY
a)	Violation of:	
	i) Cash Reserve Requirement.	i-a) Rs 69/- per Rs 100,000/- or part thereof per day on the amount by which the balance with SBP falls short of the fixed minimum. i-b) If the shortfall continues in the subsequent week or thereafter the penalty shall be increased to Rs 86/- per Rs 100,000/- or part thereof per day.
	ii) Statutory Liquidity Requirement.	ii) Rs 86/- per Rs 100,000/- or part thereof per day on the amount by which the liquid assets fall short of the fixed minimum.
b)	Violation of instructions regarding operations of Deposit Accounts and payment of Return.	Rs 20,000/- per case and / or Rs 1,000/- per day for the period of the irregularity and / or disciplinary action against official(s) responsible.
c)	Violation of instructions regarding operating of accounts.	Rs 20,000/- per case and / or Rs 1,000/- per day for the period of the irregularities and / or disciplinary action against official(s) responsible.
d)	Violation of security requirement for grant of loans and advances.	Rs 20,000/- per case and / or Rs 1,000/- per day for the period of the irregularities and / or disciplinary action against official(s) responsible.
e)	Violation of instructions / regulations regarding grant of financing facilities.	Rs 20,000/- per case and / or Rs 1,000/- per day for the period of the irregularity, and / or disciplinary action against official(s) responsible.

f)	Violation of rules & regulations including those relating to issuance of Letter of Credit and Guarantees.	Rs 20,000/- per case and / or Rs 1,000/- per day for the period of the irregularity, and / or disciplinary action against official(s) responsible.
g)	Violation of other Prudential Regulations, provisions of Banking Companies Ordinance, 1962, Banks Nationalization Act, 1974 and the State Bank of Pakistan Act, 1956.	Rs 20,000/- per case and / or Rs 1,000/- per day for the period of the irregularity, and / or disciplinary action against official(s) responsible.
h)	Delayed submission of Returns, concealment or misreporting of data / information to the State Bank of Pakistan.	Rs 20,000/- per case and / or Rs 1,000/- per day for the period of the irregularity, and / or disciplinary action against official(s) responsible.
i)	Violation of instructions regarding location, opening and shifting of branches.	Rs 20,000/- per case and / or Rs 1,000/- per day for the period of the irregularity, and / or disciplinary action against official(s) responsible.
j)	Violation of regulations regarding grant of financing facilities in respect of Export Finance Scheme / Locally Manufactured Machinery.	As already notified by State Bank of Pakistan from time to time.
k)	Excess lending to autonomous bodies from their prescribed limit.	As notified vide BCD Circular Letter No. 27/127-Priv-88 dated 12-11-1988.

2. Banks found to be repeating or committing the same violations / irregularities in the following year(s) / period(s) except those relating to Cash Reserve Requirement / Statutory Liquidity Requirement would be subjected to levy of a surcharge @ 25% compounded on succeeding year as compared to the year it was first pointed out.

3. Banks are advised to note the scale of fines / penalties as also their progressive nature and to circulate among managers of all their branches. It may also be noted that fine / penalty once levied due to mistake in reporting or any other lapse on the part of bank will not be condoned / refunded. Banks are therefore, urged in their own interest and in the interest of the banking system as a whole to ensure compliance with Prudential Regulations and other directives of the State Bank of Pakistan in letter and spirit.

REGULATION-XXVI
CREDIT RATING

²³With a view to safeguard the interest of prospective investors, depositors and creditors it shall be mandatory for all banks to have themselves credit rated by a credit rating agency on the approved panel of the State Bank of Pakistan.

2. ²⁵Foreign banks which are credit rated by M/s. Standard & Poor, Moody's and Fitch-IBCA and have a minimum rating of A3 / A- and above shall be exempt from the application of this requirement. However, all other foreign banks have to go through credit rating process in Pakistan.

3. ²³The credit rating will be an ongoing process i.e. credit rating should be updated on a continuous basis from year to year and the rating report be submitted to the State Bank of Pakistan within a period of one month of the last notification of rating.

4. ²³Banks listed on the Stock Exchange(s) will make disclosure of their credit rating to the public within one month of the last notification of rating. All other banks not listed on the Stock Exchange(s) will get themselves credit rated, however, it shall be mandatory upon them to make their credit rating public within a period of two years from the date of their first rating and thereafter annually within one month of the last notification of rating.

REGULATION-XXVII
MINIMUM INFORMATION ON THE BORROWERS

²⁷The collection and analysis of adequate information on the prospective borrower helps in expeditious credit processing, minimizing the risk of default and effective monitoring after disbursement of funds. In this context and with a view to streamline the standardization of information regarding credit processing, no financing facility whether fund based or non-fund based (including renewal, enhancement and rescheduling / restructuring) will be provided by any bank unless the Loan Application Form (LAF) prescribed by a bank is accompanied by a "Borrower's Basic Fact Sheet" as per approved format of the State Bank of Pakistan.

2. No financing facility shall be approved by a bank unless and until the information requested in the Basic Fact Sheet is provided by the borrower under his seal and signature.

REGULATION-XXVIII
FOREIGN CURRENCY DEPOSITS UNDER FE 25-1998

³²Banks shall not invest FE 25 deposits in foreign currency / local currency denominated junk bonds, shares, hedge funds or other such high risk

23 BPRD Circular No. 15 dated June 6, 2000.

25 Letter No. BSD/RU-20/121-04(Policy)/12924/2000 dated August 1, 2000.

27 BSD Circular No. 10 dated March 15, 2001.

32 BSD Circular No. 21 dated May 14, 2001.

/ high return instruments. Neither, they shall invest / place such deposits in fund management schemes of other banks / NBFIs whether in Pakistan or abroad.

2. Banks will be free to decide the rate of return on such deposits, provided the maximum rate of return offered on such deposits does not exceed LIBOR applicable on the date of determination of such return / profit. Accordingly, the previous instructions issued under para B(2) of FE Circular No.25 dated June 20, 1998 stand modified to this extent.

3. Banks shall be required to maintain the prescribed ratio of Cash Reserve against FE 25 deposits in US Dollars.

4. Placement of funds of FE-25 deposits with any one bank / financial institution, whether in Pakistan or abroad, shall not exceed twenty percent of the equity (net of accumulated losses) of the bank or of the institution with whom the funds are being placed, whichever is higher. Furthermore, compliance with all other relevant Prudential Regulations shall be ensured.

5. Banks shall be free to use FE 25 deposits for their trade-related activities provided the exchange risks are adequately covered and a square position is maintained.

6. ³⁷Foreign currency deposits mobilized under FE 25 scheme, after netting-off the deposits utilized to finance trade related activities such as financing against Import and Export documents, should not at any point exceed twenty percent of the local currency deposits of the banks at the close of business on the last working day of the preceding quarter. Banks who were in breach of the limit as on January 1, 2002 shall ensure compliance by July 1, 2002.

7. ³⁷Effective January 5, 2002 all banks will report the equivalent Pak Rupee amount (with a foot note on \$ equivalent) of FE 25 deposits utilized for trade related activities under newly created code No.80-05 of their Weekly Statement of Position submitted to Banking Supervision Department.

37 BSD Circular No. 2 dated January 1, 2002.

NAME OF THE BANK_____

STATEMENT OF CLASSIFIED ASSETS AND PROVISIONING
THERE-AGAINST AS OF THE YEAR ENDED 31ST DECEMBER / 30TH JUNE-----

1. QUALITY OF ADVANCES:

	CATEGORY OF CLASSIFICATIONS				
	OAEM	SUB-STANDARD	DOUBTFUL	LOSS	TOTAL
Principal amount of classified loans /advances (i)					
Less:					
a) Value of liquid assets					
b) Discounted realizable value of mortgaged / pledged assets in forced / distressed sale conditions.					
Sub-Total (ii) = (a+b)					
Net amount on which provision is required to be calculated (iii) = i-ii					
Provisioning requirement:					
Percentage (iv)	0%	20%	50%	100%	
Amount (v) = iii * iv					

2. QUALITY OF ASSETS:

	LOANS / ADVANCES	INVESTMENTS	OTHER ASSETS	TOTAL ASSETS
Gross assets (vi)				
Amount Classified:				
c) OAEM				
d) Substandard				
e) Doubtful				
f) Loss				
Total Classified (vii) = (c+d+e+f)				
Provision required (viii)				
Provision held:				
g) At the beginning of year				
h) Addition / reversal during the year				
At end of accounting year (ix)=g+/-h				
Excess/ shortfall in provision (x)=ix-viii				
Infection Ration (xi)-(vii/vi)*100				

Date_____

Authorized Signatory
Name and Designation_____
Seal / Stamp of the Bank_____

**BORROWER'S BASIC FACT SHEET - FOR CORPORATE
PRESCRIBED UNDER PRUDENTIAL REGULATION-XXVII**

Date of Request. _____

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

1. BORROWER'S PROFILE:

Name										Address									
Phone #										Fax #					E-mail Address				
Office					Res.														
National Identity Card #										National Tax #					Sales Tax #				
			-				-												
Import Registration #					Export Registration #					Date of Establishment					Date of opening of A/c.				

2. DETAILS OF DIRECTORS/OWNERS/PARTNERS:

Name										Address									
Phone #										Fax #					E-mail Address				
Office					Res.														
National Identity Card #										National Tax #									
			-				-												
Share-holding					Amount					% of Share-holding									

3. MANAGEMENT:

A) EXECUTIVE DIRECTORS/PARTNERS:																			
Name					Address					NIC #					Phone #				
1.																			
2.																			
B) NON-EXECUTIVE DIRECTORS/PARTNERS:																			
Name					Address					NIC #					Phone #				
1.																			
2.																			

4. CORPORATE STATUS:

Sole Proprietorship					Partnership					Public / Private Limited Company				

5. NATURE OF BUSINESS:

Industrial			Commercial			Agricultural			Services			Any other		

6. REQUESTED LIMITS:

					Amount					Tenor				
Fund Based														
Non-Fund Based														

**7. BUSINESS HANDLED/EFFECTED WITH ALL FINANCIAL
INSTITUTIONS DURING THE LAST ACCOUNTING YEAR:**

Imports					Exports					Remittances effected (if any)				

8. EXISTING LIMITS AND STATUS:

	Amount	Expiry Date	Status	
			Regular	Amount Overdue (if any)
Fund Based				
Non-Fund Based				

9. ANY WRITE-OFF, RESCHEDULING/ RESTRUCTURING
AVAILED DURING THE LAST THREE YEARS:

Name of Financial Institution	Amount during 1 st Year		Amount during 2 nd Year		Amount during 3 rd Year	
	Write-off	Rescheduled/ Restructured	Write-off	Rescheduled/ Restructured	Write-off	Rescheduled/ Restructured

10. DETAILS OF PRIME SECURITIES MORTGAGED/ PLEDGED:

A) AGAINST EXISTING FACILITIES:

Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value
1.				
2.				

B) AGAINST REQUESTED/ FRESH/ ADDITIONAL FACILITIES:

Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value
1.			
2.			

11. DETAILS OF SECONDARY COLLATERAL MORTGAGED/ PLEDGED:

A) AGAINST EXISTING FACILITIES:

Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value
1.				
2.				

B) AGAINST REQUESTED/ FRESH/ ADDITIONAL FACILITIES:

Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value
1.			
2.			

12. CREDIT RATING (WHERE APPLICABLE):

Name of Rating Agency	Rating

13. DETAILS OF ASSOCIATED CONCERNS
(AS DEFINED IN COMPANIES ORDINANCE, 1984):

Name of Concern	Name of Directors	Share-holding	% of Total Share Capital

14. FACILITIES TO ASSOCIATED CONCERNS BY THE CONCERNED FI:

Name of Concern	Nature & Amount of Limit	Outstanding as on-----	Nature & Value of Securities	Overdues	Defaults

15. DETAILS OF PERSONAL GUARANTEES PROVIDED BY THE DIRECTORS / PARTNERS ETC. TO FIs TO SECURE CREDIT:

Names of the Guarantors	Institutions/persons to whom Guarantee given	Amount of Guarantee	Validity Period	NIC #	NTN	Net-worth

16. DIVIDEND DECLARED (AMOUNT) DURING THE LAST THREE YEARS:

During 1 st Year	During 2 nd Year	During 3 rd Year

17. SHARE PRICES OF THE BORROWING ENTITY:

Listed Company		Break-up Value of the Shares in case of Private Limited Company
Current Price	Preceding 12 Months Average	

18. NET-WORTH (PARTICULARS OF ASSETS OWNED IN THEIR OWN NAMES BY THE DIRECTORS/PARTNERS/PROPRIETORS):

Owner's Name	Particulars of Assets	Market value	Particulars of Liabilities

19. DETAILS OF ALL OVERDUES (IF OVER 90 DAYS):

Name of Financial Institution	Amount

20. Details of payment schedule if term loan sought.
21. Latest Audited Financial Statements as per requirements of Prudential Regulation-IV to be submitted with the LAF (Loan Application Form).
22. Memorandum and Articles of Association, By-laws etc. to be submitted by the borrower alongwith the request

I certify and undertake that the information furnished above is true to the best of my knowledge.

CHIEF EXECUTIVE'S/ BORROWER'S
SIGNATURE & STAMP

COUNTER SIGNED BY:

AUTHORISED SIGNATURE & STAMP
(BANK OFFICIAL)

BORROWER'S BASIC FACT SHEET - FOR INDIVIDUALS / CONSUMERS
PRESCRIBED UNDER PRUDENTIAL REGULATION-XXVII

Date of Request. _____

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

1. BORROWER'S PROFILE:

Name										Address										
Phone #										Fax #					E-mail Address					
Office					Res.															
National Identity Card #										National Tax #										
				-				-												
Father's Name										Father's National Identity Card #										
													-			-				

2. REFERENCES (AT LEAST TWO):

Name										Address									
Phone #										Fax #					E-mail Address				
Office					Res.														
National Identity Card #										National Tax #									
				-				-											

3. NATURE OF BUSINESS/ PROFESSION:

Industrial	Commercial	Agricultural	Services	Any other

4. EXISTING LIMITS AND STATUS:

	Amount	Expiry Date	Status		
			Regular	Amount Over-due (if any)	Amount Rescheduled/ Restructured (if any)
Fund Based					
Non-Fund Based					

5. REQUESTED LIMITS:

	Amount	Tenor
Fund Based		
Non-Fund Based		

6. Details of payment schedule if term loan sought.

7. Latest Income Tax / Wealth Tax Form to be submitted by the borrower.

I certify and undertake that the information furnished above is true to the best of my knowledge.

APPLICANT'S SIGNATURE & STAMP

COUNTER SIGNED BY:

AUTHORISED SIGNATURE & STAMP
(BANK OFFICIAL)