



TD (Mr. Zaki)

MINIMUM CAPITAL REQUIREMENTS **FOR BANKS**

(ISSUED VIDE BPRD CIRCULAR No. 36 DATED THE 4th NOVEMBER, 1997)

ISSUED BY :-

**RISK MANAGEMENT & ANALYSIS DIVISION
BANKING POLICY & REGULATIONS DEPARTMENT
STATE BANK OF PAKISTAN
CENTRAL DIRECTORATE
KARACHI.**

**STATE BANK OF PAKISTAN
BANKING POLICY & REGULATIONS DEPARTMENT
(RISK MANAGEMENT & ANALYSIS DIVISION)
CENTRAL DIRECTORATE
KARACHI**

BPRD Circular No. 36

4th November, 1997

All Banks

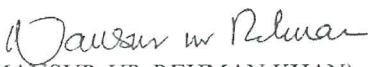
Dear Sirs,

MINIMUM CAPITAL REQUIREMENTS

Banks are aware that Section 13 of the Banking Companies Ordinance, 1962 relating to requirement of minimum paid up capital and reserves has recently been modified through the Banking Companies (Second Amendment) Ordinance, 1997 (copy enclosed). The modified law inter alia states that no banking company shall commence business unless it has a minimum paid up capital as may be determined by the State Bank or carry on business unless the aggregate of its capital and unencumbered general reserves is of such minimum value within such period as may be determined and notified by the State Bank from time to time. Accordingly, in exercise of the powers vested under the above provisions of law it has since been decided that effective from December 31, 1997 all banks shall maintain minimum capital as laid down in the enclosed Annexure.

Please acknowledge receipt.

Yours faithfully,


(MANSUR-UR-REHMAN KHAN)
Director

Encl: As above

**INSTRUCTIONS ON CALCULATION OF MINIMUM CAPITAL
REQUIREMENTS BASED ON RISK WEIGHTED ASSETS**

- 1) No banking company incorporated in Pakistan shall commence and carry on banking business unless it has a minimum paid up capital of Rs 500 million. Similarly, no banking company incorporated outside Pakistan shall commence and carry on banking business in Pakistan unless it has a minimum paid up capital of the value of Rs 500 million.

Provided that where a banking company already in existence is found short of the minimum required paid up capital on 31st December, 1997, it shall meet shortfall by 31st December, 1998.

- 2) Effective from 31st December, 1997 no banking company shall carry on banking business in Pakistan unless it maintains capital and unencumbered general reserves the amount of which is not less than 8% of the risk weighted assets of the banking company.

Provided that where the capital and unencumbered general reserves maintained by a banking company are found short of the minimum required capital and unencumbered general reserves (MCR) on December 31, 1997, the State Bank shall, on request from the banking company concerned, consider grant of extension in time for meeting the required capital adequacy.

- 3) The capital and unencumbered general reserves for the purposes of the minimum requirement of 8% of risk weighted assets shall mean and include:-

A. Equity :

- i) Fully paid up capital / capital deposited with SBP*
- ii) Balance in share premium account
- iii) Reserve for Bonus Shares
- iv) General Reserves as disclosed on the balance-sheet
- v) Unappropriated/unremitted* profits (net of accumulated losses, if any)

* in the case of foreign banks operating in Pakistan.

B. Supplementary Capital :

- i) General Provisions or Reserves for loan losses
- ii) Revaluation Reserves
- iii) Undisclosed Reserves
- iv) Subordinated debt.

- 4) The computation of the amount of Equity and Supplementary Capital shall be subject to the following limitations and restrictions:-

- i) The sum total of the different components of the Supplementary Capital will be limited to the sum total of the various components of the Equity.

- ii) While calculating the amount of equity the followings shall be deducted:-

- a) Book value of intangible assets such as goodwill, etc.
- b) Shortfall in provisions required against classified assets irrespective of any relaxation allowed by the State Bank.

Besides, investments made in the equity of subsidiary companies engaged in banking and financial activities which are not consolidated will also be deducted from the equity in the consolidated Group balance-sheet.

- iii) The subordinated debt will be limited to a maximum of 50% of the amount of equity. To be eligible for inclusion in Supplementary Capital the instrument should be fully paid up, unsecured, subordinated to the claims of other creditors and should not be redeemable at the initiative of the holder and without the prior approval of the SBP.
- iv) General Provisions or Reserves for loan losses shall include only such provisions which are not created against identified losses and are as such freely available to meet unidentified losses. These provisions or reserves will be limited to a maximum of 1.25% of risk assets
- v) Undisclosed Reserves will be permitted to be included in the Supplementary Capital despite being unpublished, provided they appear in the internal accounts of the banking company and have basically arisen out of the earnings of the banking company duly certified by the External Auditors and are accepted as such by the State Bank. To be eligible to be shown as part of the Supplementary Capital, the Undisclosed Reserves should not be encumbered by any provision or known liability and should be freely available to meet unforeseen losses.
- vi) Revaluation Reserves shall be the Reserves created by revaluation of fixed assets and equity instruments held by the banking company. The assets and investments must be prudently valued fully taking into account the possibility of price fluctuations and forced sale. Revaluation reserves reflecting the difference between the historical cost book value and the market value will be eligible upto 50% for treatment as Supplementary Capital subject to the condition that the reasonableness of the revalued amount is duly certified by the external auditors of the banking company.

5) CALCULATION OF MINIMUM CAPITAL REQUIREMENTS :

- (A) The banking companies shall calculate MCR for their respective On-Balance-Sheet assets by applying the weights as given below:-

	Assets	% Weight
a)	Cash (including approved foreign currencies and gold bullion)	0%
b)	Balances held with scheduled banks and banks abroad. (Be they term deposits, Certificates of Deposits or money at call)	20%
c)	Claims on the State Bank, the Federal Government, the Provincial Governments, and other Central Banks	0%
d)	Claims on or Guaranteed by banks of international repute incorporated in G.10 countries	20%
e)	Claims covered by cash collateral, or guarantee of the Federal Government or of the State Bank.	0%
f)	Loans to staff	0%
g)	Claims on domestic entities owned or controlled by the Federal Government	0%, 10%, 20% or 50% as may be prudently determined by the banking company.
h)	Loans fully secured by mortgage of residential or commercial property	50%
i)	Loans and advances including bills purchased/discounted (less cash margin and government securities held) to private sector entities	100%
j)	Investments in shares and other capital instruments of companies set up in the private sector	100%
k)	Fixed assets (land, building, equipments, furniture & fixture, stationery) net of depreciation	100%
l)	Other Assets	100%

Notes

- i) All claims are to be assigned the highest risk weightage (100%) unless a lower risk-weightage can be specifically assigned to them.
 - ii) Netting may be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.
 - iii) Assets which have been deducted from equity pursuant to Paragraph 4(ii) above will have a weightage of 0%.
- B) For the purpose of calculating MCR in respect of exposure under various Off-Balance-Sheet transactions, the banks shall apply credit conversion factors as indicated below to the different types of Off-Balance-Sheet transactions. The credit conversion factors will be multiplied by the weights applicable to the corresponding On-Balance-Sheet transaction based on the credit risk involved in the Off-Balance-Sheet exposure:-

	Off-Balance-Sheet transaction	Credit conversion factors
a)	Loan Repayment Guarantees and Acceptances (less Cash Margin)	100%
b)	Purchase & Resale Agreements (Reverse REPO) other than those effected through SGL of State Bank	100%
c)	Performance Bonds, Bid Bonds, Warranties and similar instruments (less Cash Margin & Government Securities held)	50%
d)	Revolving Underwriting commitments	50%
e)	Standby Letters of Credit & Other Standby Facilities with an original maturity of over one year, and other Letters of Credits (less Cash Margin & Government Securities held)	50%
f)	Outstanding foreign exchange contracts	3%

6) SUBMISSION OF RETURNS

Every banking company shall submit to the State Bank a half yearly return commencing from the half year ending 31st December, 1997 on the format given in the enclosed Appendix within a period of two months from the close of each half year ending 30th June / 31st December. The return should be certified by the external auditors of the banking company and duly signed by its authorized signatory (ies).

7) PENALTY FOR NON-COMPLIANCE

- i) A banking company failing to meet the minimum capital requirements shall render itself liable to levy of penalty under the relevant provisions of the Banking Companies Ordinance, 1962.
- ii) A banking company failing to submit the half-yearly return within the stipulated time or submit a wrong statement shall also render itself liable to levy of penalty under the Banking Companies Ordinance, 1962.

NAME OF BANK _____

POSITION AS AT _____

**HALF-YEARLY STATEMENT ON
MINIMUM CAPITAL REQUIREMENTS**

PART-A

CAPITAL / CAPITAL ADEQUACY RATIO

(Rupees in Thousands)

S.NO	ITEMS	AMOUNT
1	Equity	
1.1	Fully Paid-up capital/Capital deposited with SBP	XXXXX
1.2	Balance in Share Premium Account	XXXXX
1.3	Reserve for Bonus Shares	XXXXX
1.4	General Reserves as disclosed on the Balance Sheet	XXXXX
1.5	Un-appropriated/ Unremitted profits (net of accumulated losses, if any)	XXXXX
1.6	Sub-Total (1.1 to 1.5)	XXXXX
	Less :	
1.7	Intangible Assets (to be specified)	XXXXX
1.8	Investments in equity of subsidiary companies engaged in banking and financial activities not consolidated in the balance sheet	XXXXX
1.9	Shortfall in Provisions required against Classified assets	XXXXX
1.10	Sub-Total (1.7 to 1.9)	XXXXX
1.11	TOTAL EQUITY (1.6 - 1.10)	XXXXX
2	Supplementary Capital	
2.1	Freely available General Provisions or reserves for loan losses - upto maximum of 1.25% of Risk assets (see para 4 (iv) of Instructions)	XXXXX
2.2	Revaluation reserves - eligible upto 50% (see para 4 (vi) of Instructions)	XXXXX
2.3	Un-disclosed reserves (see para 4 (v) of Instructions)	XXXXX
2.4	Subordinated debt - upto maximum of 50% of Total Equity - Item 1.11 (see para 4 (iii) of Instructions)	XXXXX
2.5	Total Supplementary Capital (2.1 to 2.4)	XXXXX
2.6	Total Supplementary Capital eligible for MCR (Maximum upto 100% of Total Equity - see para 4 (i) of Instructions)	XXXXX
2.7	TOTAL CAPITAL (1.11 + 2.6)	XXXXX
3	Risk Assets and Off-Balance Sheet Items	
3.1	Adjusted value of funded risk assets i.e., On-Balance Sheet Items (To tally with total of Part B)	XXXXX
3.2	Adjusted value of non-funded risk exposure i.e. Off-Balance Sheet Items (To tally with total of Part C)	XXXXX
3.3	TOTAL RISK-WEIGHTED ASSETS/EXPOSURES (3.1+3.2)	XXXXX
3.4	MINIMUM CAPITAL REQUIRED (8% of Total Risk-Weighted Assets / Exposures - Item 3.3)	XXXXX
3.5	Total Capital held (As at item 2.7 above)	XXXXX
3.6	Capital Surplus / (Shortfall) - (3.4 - 3.5)	XXXXX
3.7	CAPITAL ADEQUACY RATIO (%age of 3.5 to 3.3)	XXXXX

PART-B

RISK-WEIGHTED ASSETS - ON-BALANCE SHEET ITEMS

(Rupees in Thousands)				
S.NO	ITEMS	BOOK VALUE	RISK WEIGHTS%	ADJUSTED VALUE
1	Cash (including approved Foreign Currencies and Gold bullion)		0%	
2	<u>Balances with Central Banks :</u>			
2.1	With State Bank of Pakistan		0%	
2.2	With Other Central Banks		0%	
3	<u>Balances with other Banks (including Term Deposits / Certificates of Deposit) :</u>			
3.1	With Scheduled Banks in Pakistan		20%	
3.2	With Banks outside Pakistan		20%	
4	<u>Money at Call & Short notice in Pakistan :</u>			
4.1	With Scheduled Banks		20%	
4.2	Others		100%	
5	<u>Investments in :</u>			
5.1	Federal Govt. Securities		0%	
5.2	Provincial Govt. Securities		0%	
5.3	<u>Shares of :</u>			
a)	Enterprises owned or controlled by Fed. Govt.		0% - 50% *	
b)	Private Sector Enterprises		100%	
5.4	<u>Debentures, Bonds, PTCs, TFCs, etc. of :</u>			
a)	Enterprises owned or controlled by Fed. Govt.		0%	
i)	Guaranteed by Federal Govt./SBP		0% - 50% *	
ii)	Not Guaranteed by Federal Govt./SBP		100%	
b)	Private Sector Enterprises		100%	
5.5	Other Investments (to be specified)		100%	
6	<u>Loans & Advances including Bills Purchased / Discounted (Less Cash Margin and Govt. Securities held) to :</u>			
6.1	Federal Government		0%	
6.2	Provincial Government		0%	
6.3	Loans guaranteed by Federal Govt./SBP		0%	
6.4	Enterprises Owned or Controlled by Federal Govt.		0% - 50% *	
6.5	Claims on or guaranteed by banks of international repute incorporated in G-10 countries		20%	
6.6	Private Sector Enterprises		100%	
6.7	Loans fully secured by mortgage of residential or commercial property		50%	
6.8	Staff loans		0%	
6.9	Others (to be specified)		100%	
7	Fixed Assets (Net of Accumulated Depreciation)		100%	
8	<u>Assets deducted from Capital :</u>			
8.1	Intangible Assets		0%	
8.2	Unconsolidated Investment in subsidiary companies engaged in banking and financial activities		0%	
9	<u>Other Assets</u>			
9.1	Taxation (Net of Provisions)		0%	
9.2	Accrued Interest/Profit on Govt. Securities		0%	
9.3	Others (to be specified)		100%	
TOTAL				

* 0%, 10%, 20% or 50% as may be prudently determined by the banking company.

PART-C

WEIGHTED NON-FUNDED EXPOSURES / OFF- BALANCE SHEET ITEMS

(Rupees in Thousands)						
S.NO.	ITEMS	BOOK VALUE	Conversion Factor %	Equivalent Value	RISK WEIGHTS %	ADJUSTED VALUE
1	Loan Repayment Guarantees & Acceptances (Less Cash Margin) issued on behalf of:					
	1.1 Federal / Provincial Govts., and SBP or guaranteed by the Federal Govt. / SBP.		100%		0%	
	1.2 Enterprises owned or controlled by the Federal Govt.		100%		0% - 50% *	
	1.3 Banks of international repute incorporated in G-10 countries		100%		20%	
	1.4 Private Sector Enterprises		100%		100%	
	1.5 Others (to be specified)		100%		100%	
2	Purchase & Resale Agreements (Reverse Repo) other than those effected through SGL of SBP		100%		0%	
3	Performance Bonds, Bid Bonds, Warranties & similar instruments (less Cash Margin & Govt. Securities held) issued on behalf of:					
	3.1 Federal / Provincial Govts., and SBP or guaranteed by the Federal Govt. / SBP		50%		0%	
	3.2 Enterprises owned or controlled by the Federal Govt.		50%		0% - 50% *	
	3.3 Banks of international repute incorporated in G-10 countries		50%		20%	
	3.4 Private Sector Enterprises		50%		100%	
	3.5 Others (to be specified)		50%		100%	
4	Revolving Undervriting Commitments		50%		100%	
5	Standby L/Cs & other Standby facilities with an original maturity of over one year, and other L/Cs (less cash Margin & Govt. Securities held) issued on behalf of:					
	5.1 Federal / Provincial Govts., and SBP or guaranteed by the Federal Govt. / SBP		50%		0%	
	5.2 Enterprises owned or controlled by the Federal Govt.		50%		0% - 50% *	
	5.3 Banks of international repute incorporated in G-10 countries		50%		20%	
	5.4 Private Sector Enterprises		50%		100%	
	5.5 Others (to be specified)		50%		100%	
6	Outstanding Foreign Exchange Contracts		3%		100%	
TOTAL						

* 0%, 10%, 20% or 50% as may be prudently determined by the banking company.

The Gazette  **of Pakistan**

EXTRAORDINARY
PUBLISHED BY AUTHORITY

ISLAMABAD, MONDAY, OCTOBER 27, 1997

PART I

Acts, Ordinances, President's Orders and Regulations

GOVERNMENT OF PAKISTAN

MINISTRY OF LAW, JUSTICE, HUMAN RIGHTS AND
PARLIAMENTARY AFFAIRS

(Law and Justice Division)

Islamabad, the 27th October, 1997

F. No. 2(1)/97-Pub.—The following Ordinance made by the President is hereby published for general information :—

ORDINANCE NO. LIV OF 1997

AN

ORDINANCE

further to amend the Banking Companies Ordinance, 1962

WHEREAS it is expedient further to amend the Banking Ordinance, 1962 (LVII of 1962), for the purposes hereafter appearing ;

AND WHEREAS the National Assembly is not in session and the President is satisfied that circumstances exist which render it necessary to take immediate action ;

(1675)

[1361 (97) Ex. Gaz.]

NOW, THEREFORE, in exercise of the powers conferred by clause (1) of Article 89 of the Constitution of the Islamic Republic of Pakistan, the President is pleased to make and promulgate the following Ordinance :—

1. **Short title and commencement.**—(1) This Ordinance may be called the Banking Companies (Second Amendment) Ordinance, 1997.

(2) It shall come into force at once.

2. **Amendment of Section 3A, Ordinance LVII of 1962.**— In the said Ordinance, in section 3A, in sub-section (1), after the figure and comma “6,” the figure and comma “13,” shall be inserted.

3. **Amendment of Section 5, Ordinance LVII of 1962.**— In the said Ordinance, in section 5, in clause (a), in sub-clause (i), for the brackets and figure “(3)” brackets and figure “(2)” shall be substituted.

4. **Amendment of Section 13, Ordinance LVII of 1962.**— In the said Ordinance, for section 13 the following shall be substituted, namely :—

“13 Requirement as to minimum paid-up capital and reserves.—

(1) Subject to sub-section (2) no banking company shall—

- (a) commence business unless it has a minimum paid-up capital as may be determined by the State Bank; or
- (b) carry on business unless the aggregate of its capital and unencumbered general reserves is of such minimum value within such period as may be determined and notified by the State Bank from time to time for banking companies in general or for a banking company in particular.

(2) No banking company incorporated outside Pakistan shall be deemed to have complied with the provisions of sub-section (1) unless it deposits and keeps deposits with the State Bank an amount by transfer of funds from outside Pakistan or in the form of assets acquired out of remittable profits made by it from deposits in Pakistan which is not less than what is required to be maintained under sub-section (1), in any one or more of the following forms, namely :—

- (i) interest-free deposit in cash in Pakistan rupees;
- (ii) interest-free deposit in a freely convertible approved foreign

exchange within the meaning of the State Bank of Pakistan Act, 1956 (XXXIII of 1956), specified by the State Bank in respect of such banking company; and

(iii) deposit of un-encumbered approved securities.

(3) Without prejudice to the provisions of section 83, the State Bank may, by order in writing, require any banking company which has failed to comply with the provisions of clause (b) of sub-section (1) within the period determined and notified under that clause to deposit with the State Bank such amount not on such terms and conditions as the State Bank may determine and every banking company which is so required shall be bound to comply with the order.

Exceeding the amount by which the aggregate value of the capital and unencumbered general reserves of such banking company falls short of the minimum amount of the aggregate of the capital and unencumbered general reserves required to be maintained by such banking company pursuant to clause (b) of sub-section (1).

(4) Any amount deposited and kept deposited with the State Bank under the sub-section (2) by any banking company incorporated outside Pakistan shall, in the event of the banking company ceasing for any reason to carry on banking business in Pakistan, be an asset of the banking company on which the claims of all the creditors of the banking company in Pakistan shall be the first charge.

(5) If any dispute arises in computing the aggregate value of the capital and unencumbered general reserves of any banking company, a determination thereof by the State Bank shall be final.

(6) For the purpose of this section, (a) "value" means the real or exchangeable value or, if the real or exchangeable value exceeds the nominal value, the nominal value; and (b) "capital and unencumbered general reserves" means paid-up capital and such other items as may be notified in this regard by the State Bank from time to time.

5. **Amendment of Section 27, Ordinance LVII of 1962.**— In the said Ordinance, in section 27, in sub-section (2), in the second proviso the words "referred to in sub-section (1) of section 13 or of such further period as the State Bank may under the proviso to that sub-section thinks fit to allow" shall be omitted.

6. **Amendment of Section 29, Ordinance LVII of 1962.**— In the said Ordinance, in section 29, in sub-section (2), for the words, brackets and figure “the proviso to sub-section (3)” the words, brackets and figure “sub-section (2)” shall be substituted.

7. **Amendment of Section 83, Ordinance LVII of 1962.**— In the said Ordinance, in section 83, in sub-section (7) the words “sub-section (2) of ” shall be omitted.

FAROOQ AHMAD KHAN LEGHARI,
President.

MIAN SAQIB NISAR,
Secretary.

STATE BANK OF PAKISTAN
BANKING POLICY & REGULATIONS DEPARTMENT
(RISK MANAGEMENT & ANALYSIS DIVISION)
CENTRAL DIRECTORATE
KARACHI

BPRD Circular No.06

28th January, 1998

All Banks

Dear Sirs,

MINIMUM CAPITAL REQUIREMENTS

Please refer to BPRD Circular No.36 dated the 4th November, 1997 (hereinafter referred to as the said circular) on the above subject.

2. In the light of queries received from various banks the following amendments/clarifications in the said circular are issued:

- i) In terms of Para 5 of the said circular cash margin and Government securities held are eligible for deduction from certain items before applying risk weights/credit conversion factors. A question has arisen whether the deposits held as collateral are also eligible for deduction. In this connection, it is clarified that the deposits of the party held under lien with flawless documentation shall also be eligible for deduction from exposure to such party, on the lines of cash margins, before applying risk weights/credit conversion factors. The amounts of cash margins, deposits and government securities so deducted shall be shown by way of foot-notes under parts 'B' and 'C' of the prescribed return to be submitted to the State Bank on half-yearly basis.
- ii) In terms of the existing instructions the outstanding foreign exchange contracts are assigned a credit conversion factor of 3% and a uniform risk weight of 100%. The matter has been reviewed and it has been decided that foreign exchange contracts with SBP may be subjected to "Zero" risk weight and those with banks

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to 20% risk weight. All outstanding sale and purchase contracts will, however, be taken into account and no netting off will be done. The outstanding foreign exchange contracts with SBP and banks will be shown separately against item 6, Part C, of the prescribed return. Therefore, the format of the return may be amended accordingly.

iii) "G-10 Countries" as referred to in the said circular include the following countries:

- | | | | |
|----------------|-------------------|------------|------------|
| 1. U.S.A. | 2. United Kingdom | 3. Japan | 4. Germany |
| 5. France | 6. Canada | 7. Italy | |
| 8. Netherlands | 9. Belgium | 10. Sweden | |

iv) The banks shall keep their expansion plans within such limits as can be accommodated by the size of their capital. For this purpose, banks shall constantly monitor the adequacy of their capital so that at no point of time the capital actually maintained by them falls short of the minimum requirement as laid down in the said circular.

Please acknowledge receipt.

Yours faithfully,

Mansur ur Rehman
(MANSUR-UR-REHMAN KHAN)
Director