

21st January, 2004

**SBP, PBA ASK BANKS TO USE KIBOR AS THE
BENCHMARK RATE FOR CORPORATE LENDING**

The State Bank of Pakistan (SBP) and the Pakistan Banks Association (PBA) have asked the banks to use Karachi Interbank Offered Rate (KIBOR) of one, three, six-month and longer tenors, as made available, as the benchmark rate for all corporate lending in Pak. rupee after 31st January, 2004.

This was decided at a meeting held in Karachi today under the Chairmanship of the Deputy Governor, State Bank of Pakistan, Mr. Tawfiq A. Husain and attended by the Chief Executives of all banks and senior SBP Officials.

A press release jointly issued by the SBP and PBA after the meeting said that this benchmarking has been done with a view to encourage transparency, promote consistency in market based pricing and improve management of the market risk undertaken by banks.

According to the press release, the benchmarking will apply to all Pak Rupee denominated Floating and Fixed Rate Time Loans, Term Finance Certificates (TFCs) and Commercial Papers (CPs) with reset dates (where applicable) within the available KIBOR tenors of upto six months presently, which is to be increased to twelve months tenor by March 31, 2004 and thereafter to three years by December 31, 2004. The benchmarking requirement will also apply to Overdrafts (ODs) and Running Finance obtained/renewed after 31st January, 2004.

The SBP & PBA have issued the following instructions to banks for benchmarking their corporate lending rates to KIBOR:

KIBOR has been defined as the Average rate, Ask Side, for the relevant tenor, as published on Reuters page KIBOR or as published by the Financial Markets Association of Pakistan in case the Reuters page is unavailable.

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The banks and the borrowers will be free to decide the relevant tenor of KIBOR and the spread over KIBOR at their discretion. KIBOR will be set for the lending facility on the date of drawdown or on the markup reset date. The offer letters from the banks to their clients should clearly indicate the KIBOR's tenor and the agreed spread, frequency of revision etc.

The press release said that it has been also decided that the requirement to use KIBOR as the benchmark rate will not be applicable for the following: (a) Export Finance Scheme (EFS) of the State Bank of Pakistan (b) Consumer Financing and SME Lending, as defined in SBP Prudential Regulations (c) Overdrafts and Running Finance facilities existing before January 31, 2004 (d) Term Finance Certificates/Commercial Papers approved by the Securities and Exchange Commission of Pakistan (SECP) and/or submitted to any Stock Exchange prior to January 31, 2004 and (e) all Time Loans with agreements executed before January 31, 2004. However, if the pricing is renegotiated, the pricing of such loans will need to be benchmarked to KIBOR within the available tenors.

The press release pointed out that the financing rates under EFS will continue to be determined as per instructions issued by the Banking Policy Department of the State Bank of Pakistan and Overdrafts and Running Finance facilities extended prior to 31st January, 2004 must be benchmarked to KIBOR at the time of renewal of the facility or when the same is due for repricing.

The State Bank of Pakistan, through a circular, has asked the banks to comply with the above-mentioned requirements regarding benchmarking of their corporate lending to KIBOR. It also asked the concerned quarters to report the instances where the banks do not follow the requirements of using KIBOR as a benchmark. The State Bank has cautioned the banks that it will take appropriate regulatory actions, if any violation is committed in his regard, the press released added.
