28th October,2005

STATE BANK ANNOUNCES MEASURES TO FURTHER STRENGTHEN CAPITAL BASE OF BANKS

The State Bank of Pakistan has decided to raise the Minimum Paid up Capital of Banks and Development Finance Institutions (DFIs) in a phased manner over next four years from the existing Rs. 2 billion to Rs. 6 billion by 31st December, 2009 to strengthen the solvency of Pakistani banks. The banks will be required to raise their Minimum Paid up Capital (net of losses) to Rs.3 billion, 4 billion, 5 billion and 6 billion by 31st December, 2006, 2007, 2008 & 2009 respectively.

The State Bank has also replaced the existing uniform requirement of Capital Adequacy Ratio (CAR) with the variable CAR to be based on risk ratings of the banks determined by the State Bank annually. While the minimum required CAR for category 1 & 2 banks will continue to be 8%, the banks in category 3 will have to meet the CAR of 10%, those in category 4 CAR of 12% and Category 5 banks 14% by December 31, 2006.

The new minimum capital and capital adequacy ratio requirements of banks/DFIs have been finalized in consultation with the Pakistan Banks Association. These changes which will be effective from 31st December, 2005 have been introduced to prepare the banks/DFIs for implementation of Basel-II as also to further strengthen the soundness and stability of the banking system.

The branches of foreign banks operating in Pakistan will also be required to increase their assigned capital to Rs 6 billion within the above timelines prescribed for the locally incorporated banks/DFIs. However, those branches of foreign banks whose Head Offices hold a minimum paid up capital of US $ 100 million (net of losses) and have a CAR of 9% (determined as per Basel-I or Basel-II Accord) can be allowed to continue to maintain the minimum assigned capital of Rs 2 billion (net of losses). All such branches of foreign banks shall, however, be required to seek specific permission from the State Bank to maintain the minimum assigned capital (net of losses) of Rs 2 billion effective from 31st December, 2005.

The required minimum paid up capital as well as CAR can be achieved by the banks/DFIs either by fresh capital injection or retention of profits.

Any bank/DFI that fails to meet the minimum paid up capital requirement or CAR within the stipulated period shall render itself liable to the following actions:

- Imposition of such restrictions on its business including restrictions on acceptance of deposits and lending as may be deemed fit by the State Bank.
- Descheduling of the bank, thereby converting it into a non-scheduled bank.
- Cancellation of the banking license if the State Bank believes that the bank is not in a position to meet the minimum paid up capital requirement or CAR.