



# PRUDENTIAL REGULATIONS FOR BANKS

(Updated upto January 31, 2003)  
Fifth Edition

BANKING POLICY DEPARTMENT  
**STATE BANK OF PAKISTAN**

**PRUDENTIAL REGULATIONS  
TEAM**

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## P R E F A C E

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 fifth edition of booklet on Prudential Regulations containing therein all the amendments is being 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 penal actions under the Banking Companies Ordinance, 1962.

MUHAMMAD KAMRAN SHEHZAD  
Director  
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**REGULATION-I**  
**LIMIT ON BANK'S EXPOSURE TO A SINGLE PERSON**

<sup>1</sup>The 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 (including revaluation reserves on account of fixed assets to the extent of 50% of their value) 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. No 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

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1 BPD Circular No. 10 dated May 17, 2002.

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.

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

4. In 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 Federal Investment Bonds, Pakistan Investment Bonds, Treasury Bills and National Saving Scheme securities, 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) 50% of the repayment bank guarantees accepted as collaterals of unconditional nature and payable on demand by banks, rated at least 'A' or equivalent by a credit rating agency approved by the State Bank of Pakistan, shall also be deducted.
- C) Weightage of 50% shall be given to;
  - (i) documentary credits opened by banks; and
  - (ii) guarantees / bonds other than repayment guarantees.

5. For 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.

**BUT 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.
- (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.

6. Revaluation reserves under para 1 above shall be the reserves created by the revaluation of fixed assets of the banking company. The assets must be

prudently valued fully taking into account the possibility of price fluctuations and forced sale value. Revaluation reserves reflecting the difference between the historical cost, book value and the market value will be eligible upto 50% of their assessed value subject to the condition that the reasonableness of the revalued amount is duly certified by the external auditors of the banking company.

## **REGULATION-II**

### **LIMIT ON BANK'S EXPOSURE AGAINST CONTINGENT LIABILITIES**

<sup>1</sup>Contingent 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) <sup>13</sup>Obligations under Letters of Credit and Letters of Guarantee to the extent of cash margin retained by the bank.
- (d) <sup>13</sup>Letters 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. <sup>5</sup>A 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. <sup>7</sup>Claims 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.

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

13 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**

<sup>26</sup>No 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).

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

**REGULATION-IV**  
**LINKAGE BETWEEN A BORROWER'S EQUITY**  
**AND TOTAL BORROWING FROM BANKS**

<sup>1</sup>While 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 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. For the purpose of this regulation:

- (a) <sup>2</sup>Accommodation 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) <sup>14</sup>Revaluation 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. <sup>1</sup>Every 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

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1 BCD Circular No. 15 dated August 29, 1992.  
2 BRD Circular Letter No. 41 dated December 16, 1992.  
14 BPRD Circular Letter No. 34 dated December 16, 1998 and  
Letter No.BPRD/RU-20/121-04/1239/99 dated January 27, 1999.

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) <sup>14</sup> Where the exposure exceeds Rs 2 million but does not exceed Rs 10 million. | Accounts duly signed by the borrower and countersigned by;<br>(i) the Internal Auditor of the bank or;<br>(ii) a Chartered Accountant or;<br>(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. |
| (c) <sup>14</sup> Where the exposure exceeds Rs 10 million.                                  | Accounts duly audited by;<br>(i) the practicing Chartered Accountant or;<br>(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**

<sup>13</sup>While 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

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

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

to the annual audited accounts shall be treated as current assets for the purpose of calculating this ratio. <sup>35</sup>Further, banks are advised to ensure that the loans availed under Export Finance Scheme by the borrower have been classified as current liabilities instead of long term liabilities in its balance sheet for the purpose of calculating current 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. <sup>3</sup>For the purpose of this regulation subordinated loans shall be counted as equity of the borrower.

#### **REGULATION-VI** **FINANCING FACILITIES AGAINST SHARES**

<sup>17</sup>No 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).
- 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

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35 BPD Circular No. 5 dated April 12, 2002.

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

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

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. <sup>30</sup>Facilities 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. <sup>29</sup>Banks 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.

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

<sup>1</sup>Banks 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.

<sup>32</sup>This 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.

**REGULATION-VIII**  
**CLASSIFICATION AND PROVISIONING FOR ASSETS**

<sup>19</sup>Every bank shall observe prudential guidelines given hereunder in the matter of classification of its asset portfolio and provisioning there-against.

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

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

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

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

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

**LOANS/ ADVANCES:**

**(I) SHORT TERM FINANCING FACILITIES:**

<b>CLASSIFICATION</b>	<b>DETERMINANT</b>	<b>TREATMENT OF INCOME</b>	<b>PROVISIONS TO BE MADE</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>
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.



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.

**(II) LONG TERM FINANCING FACILITIES:**

<b>CLASSIFICATION</b>	<b>DETERMINANT</b>	<b>TREATMENT OF INCOME</b>	<b>PROVISIONS TO BE MADE</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>
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	As above.	Provision of 100% of the difference

interest/ mark-up is overdue by three years or more.

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) <sup>26</sup>**CREDIT 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.

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

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.
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<sup>27</sup>**Note:**

- 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. <sup>19</sup>In 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.

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

<sup>27</sup> BSD Circular Letter No. 5 dated March 29, 2001.

<sup>19</sup> BPRD Circular No. 9 dated April 27, 2000.

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

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 a 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 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**

<sup>1</sup>No 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**

<sup>1</sup>Banks are free to determine the rates of charges in respect of various services that they may provide to their constituents. <sup>8</sup>However, banks shall strictly follow the following ranges for rates of charges relating to exports:

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

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

8 BPRD Circular No. 6 dated February 11, 1996.

(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. <sup>9</sup> 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. <sup>1</sup>It 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. <sup>13</sup>Banks shall obtain prior clearance from the State Bank of Pakistan before fixing any charges (relating to exports) other than those mentioned in this regulation.

<sup>9</sup> BPRD Circular No. 15 dated May 19, 1996.

<sup>1</sup> BCD Circular No. 15 dated August 29, 1992.

<sup>13</sup> BPRD Circular No. 8 dated April 11, 1998.

**REGULATION-XI**  
**OPENING OF ACCOUNTS**

<sup>1</sup>Banks 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**

<sup>1</sup>Banks 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

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<sup>1</sup> BCD Circular No. 15 dated August 29, 1992.

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.

- (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**

<sup>25</sup>All 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. <sup>31</sup>In 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

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

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

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.

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**

<sup>1</sup>No bank shall pay any dividend on its shares unless and until:

- (a) all its capitalized 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**

Deleted vide BPD Circular No.36 dated December 3, 2002.

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

**REGULATION-XVI**  
**WINDOW DRESSING**

<sup>1</sup>Banks 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.

**REGULATION-XVII**  
**ASSUMING OBLIGATIONS ON BEHALF OF NBFIs**

<sup>1</sup>Banks 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**

<sup>4</sup>When 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. <sup>6</sup>Borrowers, 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

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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.

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)**

Deleted vide BSD Circular No. 17 dated August 28, 2002.

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

<sup>18</sup>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 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

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



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. <sup>15</sup> ASSET 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 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;

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<sup>15</sup> BPRD Circular No. 13 dated April 9, 1999 and  
BPRD Circular Letter No. 35 dated August 5, 1999.

- 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. <sup>21</sup>Foreign 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**

<sup>11</sup>All 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,

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

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

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 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**

<sup>12</sup>All 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.

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

**REGULATION-XXIV**  
**MAINTENANCE OF ASSETS IN PAKISTAN**

<sup>34</sup>Every bank shall maintain in Pakistan not less than 80% 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 20% 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**

<sup>16</sup>In 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 Companies Ordinance, 1962, the following scale of penalties will be applicable in respect of various categories of violations of rules and regulations:

<b>SR. NO.</b>	<b>AREA OF IRREGULARITIES</b>	<b>SCALE OF PENALTY</b>
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.

34 BSD Circular No. 10 dated February 21, 2002.

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

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|-----|---|---|
| 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.  |

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|----|--|--|
| 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**

<sup>20</sup>With a view to safeguard the interest of prospective investors, depositors and creditors it shall be mandatory for all banks to have themselves

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

credit rated by a credit rating agency on the approved panel of the State Bank of Pakistan.

2. <sup>22</sup>Foreign 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. <sup>36</sup>The credit rating will be an ongoing process i.e. credit rating should be updated on a continuous basis from year to year, within four months from the date of close of financial year and the rating report complete in all respect be submitted to the State Bank of Pakistan within a period of seven days of the notification of rating.

4. <sup>20</sup>Banks 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**

<sup>24</sup>The 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.

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

36 BPD Circular No. 8 dated May 3, 2002.

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

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



**REGULATION-XXVIII**  
**FOREIGN CURRENCY DEPOSITS UNDER FE 25-1998**

<sup>28</sup>Banks shall not invest FE 25 deposits in foreign currency / local currency denominated junk bonds, shares, hedge funds or other such high risk / 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 shall be required to maintain the prescribed ratio of Cash Reserve against FE 25 deposits in US Dollars.

3. 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.

4. 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.

5. <sup>33</sup>Foreign 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.

6. <sup>33</sup>Banks are required to report the equivalent Pak Rupee amount (with a foot note on \$ equivalent) of FE 25 deposits utilized for trade related activities under code No.80-05 of their Weekly Statement of Position submitted to Banking Supervision Department.

**REGULATION-XXIX**  
**RESPONSIBILITIES OF BOARD OF DIRECTORS**

<sup>38</sup>The State Bank of Pakistan attaches a great importance to effective corporate governance, clear lines of responsibility, elaborate mechanism of accountability, and existence of proper checks and balances in each bank / DFI. The corporate governance means the way in which business and affairs of each

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

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

38 BSD Circular No. 15 dated June 13, 2002.

institution is directed and managed by their 'Board of Directors' and the 'Management'. To promote safe and sound banking practices, it is imperative that the Board of Directors assumes its role independent of the influence of the Management and should know their responsibilities and powers in clear terms. Further, it should be ensured that the Board of Directors focus on policy making and general direction, oversight and supervision of the affairs and business of the bank / DFI and does not play any role in the day-to-day operations, as that is the role of the Management.

2. In order to improve the prevailing corporate governance and to make the Board of Directors of banks / DFIs more effective, the following guidelines are being issued:

- (i) The Board shall approve and monitor the objectives, strategies and overall business plans of the institution and shall oversee that the affairs of the institution are carried out prudently within the framework of existing laws and regulations and high business ethics.
- (ii) All the members of the Board should undertake and fulfill their duties and responsibilities keeping in view their legal obligations under all the applicable laws and regulations.
- (iii) The Board shall clearly define the authorities and key responsibilities of both the Directors and the Senior Management without delegating its policymaking powers to the Management and shall ensure that the Management is in the hands of qualified personnel.
- (iv) The Board shall approve and ensure implementation of policies, including but not limited to, in the areas of Internal Audit & Control, Compliance, Risk Management, Human Resources, Credit, Write-offs, Recovery, Rescheduling / Restructuring of Debt, Treasury Management, Investments, Acquisition / Disposal of Fixed Assets, Donations / Charities, Prevention of Frauds & Forgeries and any other operational area which the Board and / or the Management may deem appropriate from time to time. The Board shall also be responsible to review and update existing policies periodically and whenever circumstances justify.
- (v) The markets are ever-changing and so are their requirements. The Board, therefore, is required to ensure existence of an

effective 'Management Information System' to remain fully informed of the activities, operating performance and financial condition of the institution, the environment in which it operates, the various risks it is exposed to and to evaluate performance of the Management at regular intervals.

- (vi) The Board should meet frequently (preferably on monthly basis, but in any event, not less than once every quarter) and the individual directors of an institution should attend at least half of the meetings held in a financial year. The Board should ensure that it receives sufficient information from management on the agenda items well in advance of each meeting to enable it to effectively participate in and contribute to each meeting. The Board should carry out its responsibilities in such a way that the external auditors and supervisors can see and form judgment on the quality of Board's work and its contributions through proper and detailed minutes of the deliberations held and decisions taken during the Board meetings.
- (vii) To share the load of activities, the Board may form specialized committees with well-defined objectives, authorities and tenure. These committees, preferably comprising of 'Non-Executive' board members, shall oversee areas like audit, risk management, recruitment, compensation, credit, etc. without indulging in day-to-day operations in these areas. These committees should appraise the full board of their activities and achievements on regular basis.
- (viii) The Board should ensure that it receives management letter from the external auditors without delay. It should also be ensured that appropriate action is taken in consultation with the Audit Committee of the Board to deal with control or other weaknesses identified in the management letter. A copy of that letter should be submitted to the State Bank of Pakistan so that it can monitor follow-up actions.

3. The above guidelines are issued under the powers vested in the State Bank of Pakistan under the Banking Companies Ordinance, 1962 and are required to be followed by banks incorporated in Pakistan and DFIs. They will also follow the 'Code of Corporate Governance' issued by the Securities & Exchange Commission of Pakistan (SECP) so long as any provision thereof does not conflict with any provision of the Banking Companies Ordinance, 1962,

Prudential Regulations and the instructions / guidelines issued by the State Bank of Pakistan.

4. The branches of foreign banks operating in Pakistan shall intimate to the State Bank, regarding any similar measures taken or policies introduced by their Head Offices with regard to above guidelines. They are required to adhere to these guidelines wherever feasible and applicable. However, they need not necessarily seek approval of their Board of Directors, as stipulated above in the case of local banks / DFIs.

5. All banks / DFIs incorporated in Pakistan are required to place this regulation before their Board of Directors for meticulous compliance and send a written confirmation signed by each board member signifying their understanding of these guidelines.

\*\*\*\*\*

NAME OF THE BANK \_\_\_\_\_

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

**1. QUALITY OF ADVANCES:**

	CATEGORY OF CLASSIFICATIONS				
	OAEM	SUB- STANDAR D	DOUBTFU L	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					

Cont'd.....

**2. QUALITY OF ASSETS:**

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

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:**

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

**2. DETAILS OF DIRECTORS/OWNERS/PARTNERS:**

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

**3. MANAGEMENT:**

**A) EXECUTIVE DIRECTORS/PARTNERS:**

<b>Name</b>	<b>Address</b>	<b>NIC #</b>	<b>Phone #</b>
1.			
2.			

**B) NON-EXECUTIVE DIRECTORS/PARTNERS:**

<b>Name</b>	<b>Address</b>	<b>NIC #</b>	<b>Phone #</b>
1.			
2.			

**4. CORPORATE STATUS:**

<b>Sole Proprietorship</b>	<b>Partnership</b>	<b>Public / Private Limited Company</b>

**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 <sup>st</sup> Year		Amount during 2 <sup>nd</sup> Year		Amount during 3 <sup>rd</sup> 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:**

<b>A) AGAINST EXISTING FACILITIES:</b>				
Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value
1.				
2.				

  

<b>B) AGAINST REQUESTED/ FRESH/ ADDITIONAL FACILITIES:</b>			
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 <sup>st</sup> Year	During 2 <sup>nd</sup> Year	During 3 <sup>rd</sup> 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)