A Chronology of Policy Announcements

A-1 Banking Policy & Regulation Group

Date of Announcement	Circular/Circular Letter No	Policy Decision
August 12, 2008	BSD Circular No. 17 of 2008	In order to facilitate banks/DFIs to develop a process for assessing their overall capital adequacy on continuing basis in relation to their risk profile and a strategy for maintaining their capital levels, "Guidelines on Internal Capital Adequacy Assessment Process" have been developed. These guidelines are aimed to supplement the instructions issued vide BSD Circular No. 08 dated June 27, 2006 on the Basel II implementation in Pakistan. All Banks/DFIs are required to have in place sound and effective process for assessing their overall capital adequacy in the light of the guidelines. They may adopt any available capital assessment methodology based on their size, nature and complexity of the operations. The assessment process so adopted should be comprehensively documented and made part of bank/DFI's strategic decision making process.
November 25, 2008	BSD Circular No. 30 of 2008	The banks/DFIs were advised vide BSD Circular No. 19 dated September 05, 2008 to maintain minimum CAR, on consolidated as well as on standalone basis has been increased for banks/DFIs to 10%. Those banks/DFIs whose CAR is at present less than 10% are advised to meet the shortfall latest by 31st December, 2008. Further, variable CAR was introduced based on the CAMELS-S. In view of the transition from Basel-I to Basel-II and to facilitate the banks/DFIs in meeting the requirements of BSD Circular No. 19 dated September 05, 2008, following changes were made: i) Banks/DFIs shall achieve the minimum Capital Adequacy Ratio (CAR) of 9% on standalone as well as on consolidated basis, regardless of their CAMELS-S rating, latest by 31st December, 2008. ii) Banks/DFIs shall achieve the minimum CAR of 10% and the requirement of variable CAR by 31st December 2009. ii) The variable CAR requirement, based on the CAMELS-S ratings, will be advised to each bank/DFI separately in due course of time.

		iii) CAR calculations shall be based on Basel II and as per the guidelines issued by the State Bank of Pakistan from time to time in this regard.
January 27, 2009	BSD Circular No. 02 of 2009	Banks were allowed to avail the benefit of 30 percent of FSV of pledged stocks and mortgaged commercial and residential properties held as collateral against all NPLs for three years from the date of classification for calculating provisioning requirement w.e.f. 31-12-2008 subject to compliance with the following conditions: i) The additional impact on profitability arising from availing the benefit of FSV against pledged stocks and mortgaged commercial and residential properties shall not be available for payment of cash or stock dividend. ii) Heads of Credit of respective banks/DFIs shall ensure that FSV used for taking benefit of provisioning is determined accurately as per guidelines contained in PRs and is reflective of market conditions under forced sale situations. 1) Party-wise details of all such cases where banks/DFIs have availed the benefit of FSV shall be maintained for verification by State Bank's inspection teams during regular /special inspection.
February 13, 2009	BSD Circular No. 04 of 2009	The Securities and Exchange Commission of Pakistan issued notification relating to accounting treatment of impairment losses recognized as on 31-12-2008 on valuation of listed equity investment held in Available for Sale (AFS) Category. (SECP's Notification No.SRO. 150(1)/2009 dated the 13th February, 2009) SBP had allowed the banks /DFIs, if they so desire, adopt the aforesaid Notification of SECP. This will be subject to the full disclosure and restriction on dividend as required vide Para 3 and Para 1-(iii) of the said Notification. However, early recognition of full impairment loss by Banks / DFIs was encouraged. As per the instructions, the impairment loss, if any recognized as on 31-12-2008 due to valuation of listed equity investments held as "Available for Sale" to quoted market prices of 31-12-2008 may be shown under the "Equity". The amount taken to equity as per Para-1 above including any adjustments/effect for price movements during the quarter of calendar year 2009 shall be taken to Profit and Loss Account on quarterly basis during the calendar year ending on 31-12-2009.

<table>
<tr><td></td><td></td><td>Any benefit resulting from allowing shall not be available for payment of dividend.</td></tr>
<tr><td>April 15, 2009</td><td>BSD Circular No. 07 of 2009</td><td>In view of the general global slowdown in growth and capital accumulation by financial institutions and representations from shareholders, the minimum Paid up Capital (free of losses) requirements issued vide BSD Circular No. 19 of September 5, 2008 were revised. Under the revised instructions the banks are required to raise their paid up capital (free of losses) as per the following timeframe:
<table>
<tr><th></th><th>Minimum Paid up Capital (free of losses)</th><th>Timeframe</th></tr>
<tr><td>1</td><td>Rs 6 billion</td><td>31.12.2009</td></tr>
<tr><td>2</td><td>Rs 7 billion</td><td>31.12.2010</td></tr>
<tr><td>3</td><td>Rs 8 billion</td><td>31.12.2011</td></tr>
<tr><td>4</td><td>Rs 9 billion</td><td>31.12.2012</td></tr>
<tr><td>5</td><td>Rs 10 billion</td><td>31.12.2013</td></tr>
</table>
While capital adequacy standards will continue as previously and all banks/DFIs shall be required to increase CAR to 10% w.e.f., December 31, 2009 irrespective of their CAMELS-S rating, till further instructions.
Branches of foreign banks (FBs) operating in Pakistan are also required to raise their assigned capital (net of losses) to Rs. 10 billion within the above prescribed timelines. However, those foreign banks whose Head Offices hold Paid up capital (free of losses) of at least equivalent to US$ 300 million and have a CAR of at least 8% or minimum prescribed by their home regulator, whichever is higher, will be allowed with prior approval of the State Bank to maintain assigned capital as under:

a) FBs operating with upto 5 branches are required to raise their assigned capital to Rs. 3 billion latest by 31st December 2010.
b) FBs operating/desirous of operating with 6 to 50 branches are required to raise their assigned capital to Rs. 6 billion latest by 31st December 2010.</td></tr>
<tr><td>August 01, 2009</td><td>BSD Circular No. 08 of 2009</td><td>1. Banks / DFIs, which have provided for the impairment on Available for Sale (AFS) securities as on December 31, 2008, may adjust their impairment, due to recovery in market prices during the year 2009. However, this adjustment shall be only to the extent which is in excess of already created impairment as on</td></tr>
</table>

		31-12-2008. Such adjustments, authenticated by the Statutory Auditors of Banks / DFIs, shall be taken to Revaluation Surplus / (Deficit) account and not to be routed through Profit / Loss account, with adequate disclosures in the financial statements. 2. In cases where impairment on AFS equity investment, made as on 31-12-2008 is sufficient to cover the impairment required during the year 2009, no additional impairment is to be made.
Aug 19 2008	BPRD Circulars No. 09 & 10	**Removal/Resignation of CEOs** For ensuring smooth transition, the Board/ appointing authorities of banks/DFIs and MFBs will intimate SBP at least 2 months before removing the CEO of the bank. Similarly, the CEO will also submit a two-month prior notice to SBP before resigning from his assignments with the bank.
Aug 27 2008	BPRD Circular No.11	**100% LC Margin on Non-Essential & Luxury Items** 100% cash margin on the import of luxury and non-essential items was imposed
Nov 03 2008	BPRD Circular No.13	**Fair Debt Collection Guidelines** The guidelines on debt collection were issued to set the minimum standards to be observed by Banks/DFIs.
Dec 19 2008	BPRD Circular No. 15	**Financing Facilities by Banks/DFIs to Microfinance Banks (MFBs) and Micro Finance Institutions (MFIs)** To achieve additional funding requirement of microfinance industry, Pakistan Microfinance Credit Guarantee Facility ("MCGF") was introduced to facilitate and promote channelization of funds from banks/DFIs to MFBs/MFIs. The MCGF will provide Partial Guarantee, which will not only reduce the credit risk of the participating banks/DFIs but will also help in enhancing the outreach of the microfinance to poor and marginalized segment of the society.
Jan 17 2009	BPRD Circular No. 01	**Limit on Exposure to a Single Person** To reduce risk concentration of the credit portfolio, the limit on exposure to a single person/group was revised, in a phased manner over the next five years. Under the Prudential Regulation R-1, currently total outstanding exposure by a bank / DFI to any single person is not allowed in excess of 30% of the bank's / DFI's equity as disclosed in the latest audited financial statements, subject to the condition that fund based exposure does

		not exceed 20% of the bank's / DFI's equity. Similarly, maximum limit for exposure to a group is 50% of the bank's/DFI's equity, with the condition that fund based exposure does not exceed 35% of the bank's/DFI's Equity. Per Party as well as group exposures have to be reduced to 25% of the bank's/DFI's Equity by end of 2013.
Feb 09 2009	BPRD Circular No. 02	**Margin restrictions for financing against the security of sugar stock** In order to discourage hoarding of sugar, the Banks/DFIs were advised to comply with the instructions issued on margin restrictions for financing against the security of sugar stock.
Feb 11 2009	BPRD Circular No. 04	**Amendment in Prudential Regulations for Consumer Financing** At the time of granting facility, the banks/DFIs shall ensure: • to obtain a written declaration about various facilities already availed by borrower from other banks/FIs • to obtain a consumer credit report of the borrower from SBP or any other consumer credit information bureau • that monthly amortization payments of consumer loans should not exceed 50% of net disposable income of the borrower • that maximum unsecured limit should not exceed Rs. 1,000,000.
March 05 2009	BPRD Circular No. 05	**Overseas Branch Licensing Policy** Policy issued to strengthen overseas operations of local banks. The policy provides a comprehensive framework for appointment of heads of overseas operations, branch operations and performance monitoring.
March 07 2009	BPRD Circular No. 06	**Current Ratio** Banks/DFIs were given freedom to determine by themselves the appropriate level of current ratio for various types of borrowers.
March 9 2009	BPRD Circular Letter No. 07	**Customers Due Diligence (CDD)** Previous instructions on KYC substituted with CDD requirements. The objective was to strengthen the existing CDD/ KYC measures and bring the requirements closer to international standards. The main features of the revised instructions include: • Mandatory requirement of Customer Due Diligence (CDD) at the time of opening account

		as well as on occasional transactions above rupees one million. • Prohibited anonymous accounts in the name of fictitious persons. • More stringent criteria for determining and verifying beneficial ownership. • Introduced concept of high-risk and low-risk customers. • Prohibited use of personal accounts for business purposes
May 11 2009	BPRD Circular Letter No.15	**PRIME MINISTER'S SPECIAL FUND FOR RELIEF OF VICTIMS OF TERRORISM** In order to help the victims of terrorism in Dir, Swat, Bajaur and Waziristan Agency of NWFP and FATA, Banks were instructed to open special account under Prime Minister's Special fund for Relief of Victims of Terrorism and receive donations from both domestic and international donors at all their branches operating in Pakistan.
May 15 2009	BPRD Circular No. 08	**Banking Facilities for Internally Displaced Persons (IDPs)** In order to provide the basic banking facilities to IDPs at their door step, instructions were issued to Banks/MFBs having branches in affected areas of Malakand Division to ensure availability of basic banking facilities for IDPs
May 16 2009	BPRD Circular No. 09	**Deposit of sponsor shares in blocked account with Central Depository Company of Pakistan (CDC)** Microfinance banks were required to deposit the sponsor shares in a blocked account with CDC**.**
June 06 2009	BPRD Circular No. 11	**Pension disbursement through banks** In response to the Suo-Moto Notice of honorable Supreme Court regarding pension disbursement through all branches of all the licensed banks, necessary instruction were issued to banks for cooperating with pensioners in their account opening.
September 17, 2008	IBD Circular No. 03 of 2008	**Fit and Proper Criteria for Shariah Advisors** Reference to BD Circulars No.2 and 4 dated March 20, 2007 and August 16, 2007 respectively on the same subject. With a view to facilitate the Islamic Financial Industry, it has been decided to revise Para 7 (a) & (b) of Annexure to IBD Circular No.2 of 2007, regarding "Conflict of Interest" as follows:

		a) The Shariah Advisor of an Islamic Banking Institution (IBI) shall not work in any other IBI in any capacity whatsoever. Additionally, in the spirit of good corporate governance, no Shariah Advisor shall approve a transaction from both sides representing two financial institutions. b) Shariah Advisor of an IBI shall not hold any executive/non-executive position in any other financial institution, except working as member Shariah Board/Committee of other financial institution(s). c) Other instructions on the subject shall remain unchanged.
November 15, 2008	IBD Circular No. 04 of 2008	**Instructions and Guidelines for Shariah Compliance in Islamic Banking Institutions** With refer to IBD Circular No.2 dated 25th March, 2008 on the same subject. With a view to facilitate the Islamic Financial Industry, it has been decided to revise clause 1(vi) of Appendix A to Annexure I of IBD Circular # 2 of 2008, regarding the Essentials of Islamic Modes of Financing (Murabaha), as follows: "vi) Wherever possible, the invoice issued by the supplier shall be in the name of Bank- Account Client e.g. "1st Islamic Bank – ABC Company" as the commodity would be purchased by an agent on behalf of such financier. In case it is not possible, then specific approval from the Shariah Advisor should be sought for the transactions. It is preferable that the payment for such commodities should be made by the financier directly to the supplier or credited in an Escrow Account. In both the cases, the Murabaha financing account shall be debited only after completion of offer and acceptance between the customer and the IBI. If direct payment to the supplier by the IBI is not feasible for valid reasons, such reasons shall be recorded by the IBI for making payment to the supplier through the agent for purchase of goods. However, in this case proper utilization of funds shall be ensured by the IBI."Other instructions on the subject shall remain unchanged.
January 27, 2009	IBD Circular No. 01 of 2009	**Implementation of Islamic Financial Accounting Standard for Ijarah (IFAS 2)** Reference to Islamic Financial Accounting Standard for Ijarah IFAS – 2 notified by the Securities and Exchange Commission of Pakistan (SECP) as per SRO No. 431(I)/2007 dated May 22, 2007 and Clause-V of Annexure 2 to IBD Circular No 2 of 2008 regarding Financial Reporting and General Disclosure for Islamic Banking Institutions (IBIs).

		In view of the representation of Pakistan Banks' Association regarding practical issues in implementation of this standard for the reporting year ended December 31, 2008, it has been decided to allow implementation of this standard w.e.f January 01, 2009. Accordingly, IBIs shall ensure that henceforth all returns/statements submitted to State Bank as well as the Quarterly/Annual Financial Statements shall be prepared in line with this Standard.
April 10, 2009	IBD Circular Letter No. 01 of 2009	**Submission of Returns to IBD-Revision of MSP** With reference to IBD Circular Letter No 1 of 2006 on same subject and subsequent instructions issued on subject from time to time. The parallel run of Quarterly Report of Conditions (QRC) has been called off vide OSED Circular Letter No 1 of 2009. Therefore IBIs are advised to discontinue the submission of paper based QRC Part A, B & C. Moreover, as per Circular No 1 of 2009 on "Implementation of Islamic Financial Accounting Standard for Ijarah (IFAS 2-Ijarah)" format of Monthly Statement of Position (MSP) has also been revised. All Islamic banking Institutions are advised to report MSP on new format with effect from April 2009, through email only at ibd.reproting@sbp.org.pk. All other instructions on the subject remain unchanged.
June 06, 2009	IBD Circular Letter No.02 of 2009	**Revision of Capital Adequacy Requirement (CAR) For IBBs** With reference to clause 7 of Annexure-III of IBD Circular No. 2 of 2004 (read with BPRD Circular No.1 of 2003), regarding Capital Adequacy Ratio (CAR) requirement for Islamic Banking Divisions / Branches of conventional Banks. It has been decided to revise clause 7(i) of IBD Circular No. 2 (Annexure-III) of 2004 immediately as under: Clause 7(i): Islamic Banking Fund / CAR. All conventional Banks having Islamic Banking License for IBBs should maintain a minimum Islamic Banking Fund of Rs 50 million, at any point of time as seed capital and should also maintain Capital Adequacy Ratio (CAR), as applicable on Bank-wide basis, prescribed by SBP from time to time. All other instructions contained in the said Circular shall remain the same.

A-2 Development Finance Group

Date of Announcement	Circular No.	Policy decision
September 29, 2008	ACD Circular No. 05	**Enhanced Indicative Per Acre Credit Limit for Agriculture Financing** In line with the Government's priority for the development of agriculture sector and to ensure availability of adequate and timely credit to the farming community, State Bank of Pakistan has enhanced indicative per acre credit limits on an average of 70% for major & minor crops, orchards and forestry. The enhancement in limit has been made on the basis of current prices of inputs like seed, fertilizer, pesticides, fuel, electricity, etc. Further to facilitate farmers in getting loans for growing of orchards and agro forestry, year wise per acre indicative credit limits for growing of orchards viz. mango, citrus, apple, banana, coconut, dates, guava, etc. and agro forestry viz. acacia, shesham, bamboo, etc. have also been provided. The enhanced per acre credit limits are indicative in nature and banks are allowed to finance lower or higher than the limits based on actual credit requirements of specific farmers, market conditions and prices of farm inputs. Banks are advised to circulate the above instructions to its branches immediately for compliance.
February 03, 2009	ACD Circular No. 01	**Guidelines on Islamic Financing for Agriculture** Keeping in view the potential and demand for Islamic banking products in the area of agriculture, SBP, in consultation with stakeholders, has developed the attached guidelines on Islamic financing for agriculture to facilitate banks in developing specific Shariah compliant products to meet financing needs of the farming community. Banks are advised to use the guidelines for

		developing their own Shariah compliant products for financing to agriculture sector according to their policy and operational & market requirements, subject to compliance with SBP regulations and approval from their Shariah Advisor.
Jan 05, 2009	MFD Circular No.01 of 2009	**SHARING OF CUSTOMER DATA WITH PILOT/PRIVATE CIB** Currently, MFBs regulated by SBP share their customers' data with and use SBP's e-CIB; however, a large number of MF clients (at present approximately 50%) are served by non-SBP regulated MFIs with no credit history of their customers either at SBP or private credit bureaus. Both MFBs and MFIs are operating in the same markets with good chances of overlapping customers thus the risks of over indebtedness and loans adjustment by customers with different organization exists. Further, the envisaged accelerated MF growth has also made it imperative to have a dedicated MF-CIB in Pakistan for smooth functioning of MF markets. In this regard, Microfinance Banks may like to share their customers' data with pilot/private CIB(s) subject to development of comprehensive customer protection and confidentiality guidelines duly approved by their Board of Directors. Further, express customer consent is mandatory for sharing customer data with other institutions/ CIB and the duty of maintaining confidentiality will remain with the Microfinance Bank.
Commodity Operations Financing (COF)		
January 30, 2009	SMEFD Circular No.03	**<u>Procurement of Wheat by The Private Sector-2009</u>** It was decided that banks will continue to provide financing facilities to their **eligible borrowers (licensed functional flour mills only)** for procurement of indigenous wheat strictly (from fresh wheat crop 2009) subject to the following conditions: • Loans will be repayable on or before 31st January 2010 positively • Funds will be available for procurement of wheat only against pledge of wheat stock. • 10% margin will be applicable.

		• Banks will determine the rate of markup on lending to the private sector for the purposes of wheat procurement depending upon the risk profile of each borrower. • Banks will not entertain any application for fresh loans after 30-06-2009. • Banks are also allowed to provide facilities for wheat procurement by the seed processing plants • No revaluation of existing stock of wheat for release of any differential amount to borrows. • The banks shall be under obligation to immediately recall the advances allowed to the private sector in case of hoarding of wheat by the functional flour mills
April 23, 2009	SMEFD Circular Letter No 5	**Withdrawal of minimum cash margin** It was decided to withdraw minimum cash margin requirement of 10% of the value of the wheat stock on wheat financing for the private sector.
Long Term Financing Facility (LTFF)		
July 2, 2008	MFD Circular No. 05	**Re-fixation of Mark-Up Rates under LTFF Scheme:** Existing Rates of Mark up (viz. 8 – 10% p.a.) shall continue to be applicable
November 12, 2008	SMEFD Circular No. 04	**Modification in Procedure for Refinance:** In order to facilitate banks/DFIs to provide financing facilities to the exporters SBP started providing **100% refinancing** under LTFF Scheme. Earlier refinancing was restricted to the extent of 70% of financing provided by the banks/DFIs under the Scheme.
January 22, 2009	SMEFD Circular No. 01	**Grace Period Facility:** One year grace period facility was allowed under SBP's Long Term Financing Schemes (viz. LTF-EOP including Debt Swap Facility and LTFF), effective 1st January, 2009.
January 23, 2009	SMEFD Circular No. 02	**Eligibility of Sectors/Industries:** **Ethanol** industry was included in the list of Sectors eligible under the Scheme.

February 25, 2009	SMEFD Circular No 5	The GoP made some modification in the Mark Up rate subsidy. It was decided that the period of the subsidy shall be enhanced to 2 years (from July 1 2007 to June 30, 2009. Further, the subsidy for the period from Jul 1, 2008 to Dec 30, 2009 will be paid in march 09 and the subsidy for Jan 1, 2009 to Jun 30 2009 shall be paid in July 2009 subject to allocation in budget of FY10. It was also decided that those spinning mills that could not avail subsidy for the first six months ending on December 31, 2007 due to their inability to seek settlement of their overdue loan installments or any other reason may also file claims separately to their banks for availing 3% mark up subsidy of said period in **March 2009, provided their default has since been settled.**
March 16, 2009	SMEFD Circular No.07	**Eligibility of Sectors/Industries:** **Furniture** and **Pharmaceutical Sectors** were also included in the list of eligible Sectors of the Scheme.
April 21, 2009	SMEFD Circular No.08	**Eligibility of Sectors/Industries:** • Six value added **sub-sectors of Spinning** have also been included in the list of eligible Sectors of the Scheme. • However, SBP will refinance up-to 50% of the financing facilities to be provided by the banks/DFIs to the eligible borrowers of above six sub-sectors / processes of Spinning Sector under LTFF Scheme; while the remaining 50% will be financed by the banks/DFIs from their own sources at lending rates of respective lending institutions as agreed with the borrowers.
April 21, 2009	SMEFD Circular No.09	**Refinancing of outstanding loans under LTFF Scheme:** • One time opportunity was provided to the eligible exporters (excluding Textile & Garments) to refinance their outstanding long term commercial loans, for import/purchase of plant & machinery, with loans under SBP's LTFF Scheme. • However, refinance facilities under said arrangements were restricted to the extent of 50% of outstanding loans. • Remaining 50% shall continue to be

		financed by the banks/DFIs from their own sources as per original terms & conditions of respective lending institutions. • This facility remained valid only up to **30th June 2009**.
June 26, 2009	SMEFD Circular No. 11	**<u>Modification in LTFF Scheme:</u>** • Refinancing under LTFF Scheme has been allowed against **LCs** established before the announcement of the Scheme and retired after June 30, 2007. • Moreover, refinancing under the Scheme has also been allowed against plant/machinery used for **regeneration of textile waste into usable fiber**. • However, refinancing shall be allowed to the extent of 50% of financing provided by banks/DFIs to the eligible borrowers availing above facilities and remaining 50% will be financed by the banks/DFIs from their own sources as per the terms & conditions of financing banks/DFIs agreed with the borrowers.
Feb 27, 2009	SMEFD Circular Letter No 1	**<u>Grace Period Facility under LTF-EOP/LTFF:-</u>** • Banks / DFIs were allowed that they may also allow **Grace Period Facility under LTF-EOP/LTFF Scheme**, against installment(s) falling due on December 31, 2008, for a maximum period of one year. • They were also allowed to consider the requests of those borrowers for Grace Period Facility whose loans have been rescheduled / restructured after 30th June 2008.
March 11, 2009	SMEFD Circular Letter No. 3	**<u>Refinance Against Second Hand Machinery:</u>** Under the LTFF Scheme refinancing facility has also been allowed against **imported second hand machinery** with certain terms & conditions which included:- • Second hand machinery purchased from local suppliers shall not be ineligible. • The useful life of such machinery should be more than the period of loan itself. • The borrowers should submit an in-order report from PBA's approved surveyors.

		• Maximum period of refinance shall be three years. • LCs established from the date of said circular to December 31, 2009 shall be eligible for refinancing from SBP.
April 27, 2009	SMEFD Circular Letter No 6	**<u>Grace Period Facility – Extension in Deadline:</u>** Deadline for submission of cases for availing **Grace Period Facility** under LTF-EOP/LTFF Scheme was extended from March 31, 2009 to May 11, 2009.
June 08, 2009	SMEFD Circular Letter No 07	**<u>Eligibility of Generators / Captive Power Plants under LTFF Scheme:</u>** Financing facilities under LTFF Scheme have also been allowed for import of generators/captive power plants (including other allied machinery items used to generate electricity) to export oriented units/projects <u>which are not eligible under LTFF Scheme</u> on following terms & conditions:- i. The capacity of generator/captive power plant shall not be in excess of their in-house energy requirements for the manufacturing of their products. In case of excess generation capacity, only the proportionate financing up to the manufacturing requirements of the unit/project will be eligible. ii. Refinancing shall be allowed to the extent of 50% of financing provided by banks/DFIs for import of generators/captive power plants. iii. L/Cs established since January 1, 2008 but retired/to be retired during the period from January 1, 2009 to December 31, 2009 shall be eligible for refinancing under the Scheme. **iv.** Minimum exports of the unit/project should be at least 50% of its annual sales.
June 20, 2009	SMEFD Circular letter No.09	**<u>Extension of Limits under LTFF Scheme:</u>** Limits sanctioned under LTFF Scheme for FY 08-09 were continued till finalization of new limits under the Scheme for the financial year 2009-10.
Export Finance Scheme (EFS)		
August 20, 2008	SMEFD Circular No.01	**<u>GRANT OF LIMIT FOR FY 2008-09</u>**

		The overall quantum of limits for banks under EFS for FY 2008-09 was increased by 25% of the amount outstanding as on 30th June 2008. Accordingly, on an overall basis, SBP would allow limits to the extent of Rs 125 billion to banks under the said Scheme during FY 09; as per the modified procedure, the share of banks would also increase accordingly.
November 05, 2008	SMEFD Circular No.02	**<u>Modifications in Procedure for Refinance (Part-I)</u>** In order to facilitate banks to provide financing to the exporters, the Export Finance Scheme (EFS) was amended and it was decided that i) SBP shall provide 100% refinance under Part I of the scheme. However, banks would continue to provide 30% finance from their own sources against loans taken under Part II of the scheme. ii) SBP shall take over the 30% financing provided by banks from their own sources against all loans outstanding as on 31-10-08. iii) The limit of each bank under EFS for the FY 2008-09 will be revised on quarterly basis and conveyed to banks individually
November 12, 2008	SMEFD Circular No.03	**<u>Modifications in Procedure for Refinance (Part-II)</u>** To further facilitate banks & exporters, it was decided that i) State Bank will henceforth provide 100% refinancing to banks against export finance provided by them to exporters under Part-II of EFS subject to fulfillment of the requirements of the Scheme. ii) SBP shall take over the 30% financing provided by banks from their own sources against all loans outstanding. iii) Banks shall henceforth not be entitled to deduct the funds provided under both parts of the Scheme from their Time and Demand Liabilities determined for the purpose of computation of both Cash

<table>
<tr><td></td><td></td><td>Reserve Requirement and Statutory Liquidity Requirement</td></tr>
<tr><td>December 26, 2008</td><td>SMEFD Circular No.05</td><td><u>Procedures for Refund of Fine-Modification</u>

The Procedure for Refund of Fines charged under Export Finance Scheme was modified and it was decided that henceforth a force majeure event shall be the deciding factor for the cases.</td></tr>
<tr><td>February 14, 2009</td><td>SMEFD Circular No 4</td><td><u>Extension in Period under Part-I</u>

It was decided that the EFS facility under Part I shall be available for 270 days. Exporters shall be allowed rollover of EFS loans taken under Part I for a period of 90 days provided shipment has been made within 180 days of availing the loan and Annexure ‘D’ has also been submitted. The exporters will get finance upto 85% of the value of firm export order/contract/letter of credit and will be required to make shipments equivalent to 117% against refinance availed for 270 days from the export of eligible commodities under Part-I (pre-shipment). Similarly, in case of post shipment, exporters will be eligible to avail 85% refinance against the respective shipment.</td></tr>
<tr><td>March 09, 2009</td><td>SMEFD Circular No 6</td><td><u>Performance Based Mark-up Rates</u>

It was decided to further incentivize financing under EFS (Part-II) by way of lowering mark-up rates for high performers. The following mark-up rates will be charged from exporters based on their export performance against borrowing from SBP under EFS Part-II:-

<table>
<tr><th>Performance Requirement</th><th>Mark-up Rate for Borrower</th></tr>
<tr><td>2.00 to 3.00 times</td><td>7.5% p.a. (Standard EFS Rate)</td></tr>
<tr><td>3.01 to 4.00 times</td><td>7.0% p.a.</td></tr>
<tr><td>4.01 to 5.00 times</td><td>6.5% p.a.</td></tr>
<tr><td>Above 5.0 times</td><td>6.0% p.a.</td></tr>
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<tr><td>June 22, 2009</td><td>SMEFD Circular No 10</td><td><u>Reduction in Export Performance Requirements under Part-II for Hand Knotted Carpets</u>

It was decided that, for the exporters of Hand knotted Carpets, the required performance for financing facilities availed under Part II of EFS during FY 2008-09 be revised to 1.50 times as</td></tr>
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		against existing performance requirements of 2.0 times. The entitlement of limits for FY 2009-10 shall, however, continue to be fixed as per existing criteria / instructions.
September 18, 2008	SMEFD Circular Letter No.01	**RELAXATIONS TO EXPORTERS IN EXPORT PROCEEDS** In order to facilitate the exporters, it was decided to account for the export proceeds realized by the exporters upto July 31, 2008 for the purpose of entitlement of limit in their EE-1 statement of 2007-08, to enable them to avail limit there-against for FY 2008-09
October 20, 2008	SMEFD Circular Letter No.02	**HANDKNOTTEDCARPETS-MATCHING PERFROMANCE REQUIREMENT – PART-II** In order to facilitate the exporters of Hand Knotted Carpets it was decided to enhance the entitlement of limit from existing 50% to 67% for the monitoring year 2008-09 on the basis of export proceeds realized during monitoring year 2007-08.
April 02, 2009	SMEFD Circular Letter No. 4	**Bleached/unbleached cloth with export value of US$ 2.50 Sq.meter-ELIGIBILY UNDER EFS** It was decided that refinance facility shall be available for export of bleached/unbleached cloth with export value of US$ 2.50 or above per square meter.
June 20, 2009	SMEFD Circular Letter No. 8	**Export Finance Scheme (EFS) /Islamic Export Refinance Scheme (IERS)-Extension in Limit** In order to ensure that the financing facilities are available to exporters till finalization of their new limits under Part-II of Scheme, it was decided that the limits sanctioned by banks to individual exporters under Part-II of the Scheme for 2008-09 shall continue upto August 31, 2009, to enable exporters to avail financing facilities under the Scheme pending preparation of EE-1 statements, their verification by the Foreign Exchange Operations Department, SBP-BSC and submission of the same to the Refinance Units of the concerned office of SBP-BSC.

A-3 Financial Market/Reserve Management Group

<table>
<tr><th>Date of announcement</th><th>Circular No.</th><th>Policy Decision</th></tr>
<tr><td>June 30, 2008</td><td>FSCD Circular No. 09</td><td>Appointment Of Primary Dealers For Financial Year 2008-09:

It is advised that the following institutions have been selected to act as Primary Dealers for the financial year 2008-09.
1. ABN Amro Bank (Pakistan) Limited
2. Citibank N.A.
3. Habib Bank Limited
4. JS Bank Limited
5. MCB Bank Limited
6. National Bank of Pakistan
7. Pak Oman Investment Company Limited
8. Standard Chartered Bank (Pakistan) Limited
9. United Bank Limited</td></tr>
<tr><td>August 29, 2008</td><td>FSCD Circular No. 11</td><td>Cut-Off Time During The Month Of Ramadan:

The following cut-off timings will remain effective during the month of Ramadan.
<table>
<tr><th rowspan="2">Days</th><th colspan="2">Cut-Off time</th></tr>
<tr><th>For Settlement of Interbank Deals</th><th>For FX Transactions by ADs</th></tr>
<tr><td>For Monday to Thursday and Saturday</td><td>01:30 PM</td><td>01:00 PM</td></tr>
<tr><td>For Friday</td><td>12:15 PM</td><td>12:00 PM</td></tr>
</table>
After Ramadan, cut-off time for settlement of interbank deals and for FX transactions by authorized dealers will automatically be reverted to pre-Ramadan timings.
All are advised to strictly observe the above timings.</td></tr>
<tr><td>September 06, 2008</td><td>FSCD Circular No.13</td><td>Government of Pakistan Ijara Sukuk:

The notification of the Government of Pakistan Ijara Sukuk Rules, 2008 (the “Rules”) is enclosed for your information (Annexure “A”). Consequently, the detailed instructions and guidelines regarding issuance and other operational details of GOP Ijara Sukuk are enclosed as under:-

1. All commercial banks including Islamic Banks (and Non-banks subjected to SLR and entitled to open current account with SBP) will be eligible to open Subsidiary General Ledger accounts (SGLA) with State Bank of Pakistan for the Ijara Sukuk. Commercial Banks having Islamic branches will have to maintain separate SGLA’s to clearly distinguish between the holdings of the Islamic branch and its conventional counterpart.
2. All Islamic banks and commercial banks with Islamic Branches will be designated as primary dealers for the purpose of participating in the auction of GOP Ijara Sukuk to be announced by the State Bank of Pakistan. Islamic Branches will not be</td></tr>
</table>

		allowed to separately place bids in the auction. 3. The Sukuk will be issued at face value. 4. GOP Ijara Sukuk will be sold via competitive auctions held by State Bank of Pakistan in which participation will be restricted to the above mentioned primary dealers. 5. As per the Rules, the maturity period of the first Sukuk issue will be for three years from the date of issue. The profit on the Sukuk shall be paid semi-annually on the basis of rental rate announced by the State Bank of Pakistan prior to start of each half year. The semi-annual profit will be benchmarked against the latest weighted average yield of the 6 month Market Treasury Bills determined one day prior to the start of each 6 month Rental Period (commencing from the issue date of Sukuk) and determined in the same manner at the start of each half year. In case the last held Market Treasury Bill auction the 6 month tenor is either rejected by the State Bank of Pakistan or there is no participation from the market, State Bank of Pakistan will use the 6 month tenor as given on the Reuters PKRV page (121-180 days) as the above benchmark determined one day prior to the start of each 6 month rental period. 6. Primary Dealers will be required to place bids as margin over / under the benchmark 6 month Treasury Bill weighted average yield. Minimum. Bid size will be PKR 100,000 and in multiples thereof. Primary Dealers will be free to place multiple bids. Margin has to be specified in terms of bps over / under the benchmark rate upto a maximum of two decimals points. 7. State Bank of Pakistan will have the sole discretion to accept / reject any bid without assigning any reason thereof. The highest margin over the six month Treasury Bill weighted average yield (at and below which SBP decides to accept all bids) will apply uniformly to all accepted bids. This margin will remain fixed over the entire tenor of the Sukuk. This can be explained by the following example: GOP Ijara Sukuk Required amount: PKR 10,000 million 1 Bank A 1,000 1,000 TBill -10.00 bps 2 Bank B 3,000 4,000 TBill - 5.00 bps 3 Bank C 2,000 6,000 TBill + 0.00 bps 4 Bank D 4,000 10,000 TBill + 5.00 bps 5 Bank E 5,000 15,000 TBill +10.00 bps 6 Bank F 3,000 18,000 TBill +15.00 bps 7 Bank G 2,000 20,000 TBill + 20.00 bps a. For example, the required amount is PKR 10 billion and bids are received from seven banks totaling PKR 20 billion. b. The primary dealers will be ranked and selected in the competitive auction on the basis of lowest profit rate. Banks A-D qualifies for the issue. c. Accordingly cut off will be established at bid no. 4 and each bank A-D will be awarded the Sukuk at TBill + 5 bps. 8. In order to ensure that there is no over concentration, holding of any commercial bank including Islamic banks cannot exceed 25%

		of the issue amount as of close of any business day. In case of commercial banks with Islamic branches this holding restriction will be applied on a combined / amalgamated basis. 9. A Tender Notice inviting sealed bids from the primary dealers would be broadcasted on SBP's REUTERS page SBPK16 / Newspapers and will give details of the auction program. 10. All primary dealers are required to send their bids as per required format. 11. The Auction result would be announced through SBP's REUTER Page SBPK17. 12. The legal structure of the Sukuk and the related documentation is explained in Annexure "C". 13. Successful bidders would be required to duly execute, within one day of announcement of Auction result, a Certificate Subscription Undertaking through their authorized signatories at the premises of the State Bank of Pakistan Banking Services Corporation ("SBP BSC"), Karachi to subscribe to the Sukuk and deposit the requisite amount for settlement of the accepted bids on the settlement date of the auction. 14. The settlement date will be the date of issue of the Sukuk. 15. As mentioned in the Rules Ijara Sukuk will be scripless and held in the SGLA accounts of commercial banks. Sukuk can be traded in the secondary markets and are transferrable through SGLA. Primary dealers are free to sell Ijara Sukuk to eligible investors as described in the Rules. In such cases all banks will be required to open IPS accounts of their customers reflecting the customer holdings of Ijara Sukuk. In this regard, the current procedures applicable for IPS accounts will also apply to that of Ijara Sukuk.
December 26, 2008	FSCD Circular No.17	**Cut-Off Timing For Dealing By Banks' Treasuries:** The cut-off dealing time for all permitted Foreign Exchange, Derivatives and Money Market transactions will be observed as follows; • Monday through Friday : Up to 4:30pm, and • For Saturdays: Up to 1:00pm. The above instructions will be effective from Friday, January 02, 2009. Authorized Dealers are advised to strictly observe the above mentioned timings. It is further re-iterated that cut-off timings for settlement of interbank deals conveyed vide FSCD Circular No. 20 of October 31, 2007 will remain unchanged.
March 11, 2009	FSCD Circular No. 03	**Amendments in Special US Dollar Bond Rules 1998:** The federal Government is pleased to direct that in special US Dollar Bond Rules 1998, following further amendments shall be made and shall be deemed to have been made on July 1, 2009, namely: In the aforesaid rule (a) In rule 8, for the full stop, at the end, a colon shall be substituted and thereafter the following proviso shall be

		added, namely:- "provided that the exemption from income tax in this rule shall be withdrawn with effect from July 1, 2008". (b) In the rule 8A, the words, figure and comma "and rule 8 except the provisions about exemption from levy of Zakat," shall be omitted.
June 06, 2009	FSCD Circular No.07	**Changes In Rules Governing Primary Dealer System:** In order to further rationalize and to align those with market practices following changes (highlighted in **bold letters**) are being made in existing PD rules: **NEW AMENDED RULE** **Primary Dealer's Privileges:** Only **designated** PDs would be eligible to participate in the auctions of Government Securities. The requirement of other banks/ institutional investors would be covered from these PDs or from other secondary market players. **PDs will be allowed to entertain Pass-through bids, but such volumes will not be counted towards secondary market performance evaluation of the respective.** PDs would be allowed to carry a short position in securities managing it through repos up to a maximum of three consecutive months for bonds and two weeks for MTBs. However, they would be required to **mark-to-market their short positions on daily basis** and report them to SBP on prescribed formats. **Primary Dealer's Obligations:** PDs would actively participate in all auctions of tradable government securities. The State Bank of Pakistan would announce pre-auction target amount in short-term as well as in long-term government securities. **Non-competitive Bids (NCBs) will be allowed for both MTBs and PIBs. Non-competitive bids however will be accepted as 15% of the pre-announced auction target** by the State Bank of Pakistan for investors other than banks/ DFIs/ NBFIs through PDs. An important responsibility of the PD will be to underwrite the auctions of Long-term paper offered by the State Bank of Pakistan. **To avoid any out of market quotes the bid price for long-term paper would be confined to a range of ± 50 basis points from the respective tenor prices appearing on Reuters PKRV page on the last working day prior to bidding**. Each PD shall be required to ensure compliance of minimum underwriting target of 3.5% **to be applied on the Pre-auction target or the issued amount, whichever is lower, for**

		respective tenors of PIBs (July –June) and compliance to this shall not be restricted on each auction basis. The non-compliance for underwriting requirements by PD may affect renewal of its primary dealership for next year. Each PD shall be eligible to claim underwriting commission, to the extent of **minimum underwriting target (as explained in rule D-3)** or the bid amount accepted, whichever is less, in respect of auction of Long Term securities. The claim for underwriting commission shall be lodged by PD after the settlement date. It would be compulsory for all the PDs to quote **two-way prices to other PDs, Non-PDs, and institutional investors etc. as per instructions contained in rule D-8, subject to availability of limit**. In secondary market, **all PDs may quote in terms of yield rather than price. In case of PIBs, the maximum bid/offer spread will be 15bps for on the run issues up to 10 years tenor bonds. In case MTBs, the maximum bid/offer spread for on the run issues will be 25bps.** **PDs have to ensure two-ways prices in secondary market within above defined maximum bid/offer spreads for marketable lot-size for both MTBs and PIBs. The marketable lot-size for MTBs will be in range of PKR 100.0mln – 300.0mln (multiples of PKR 100.0mln).The marketable lot-size for PIBs will be in range of PKR 50.0mln – PKR 200.0mln (multiples of PKR 50.0mln). On-the-run issues defined for above obligation would represent last the two issues in the market.** At any given day, a PD's holding in a particular issue with days to maturity greater than 1-year **will not exceed 30.0% of the total issued amount or PKR 1.5billion, whichever is higher in each tenor. However for Non-PDs the limit will be 15.0% or PKR 1.5 billion, whichever is higher, in each tenor. The PDs issue-wise holding limit of 30.0% will run-down to 15.0% of the issued amount on expiry of 90days from the purchase date of that particular issue. This revised limit would apply only on issues sold during FY'08 and onward. Compliance to above instructions on current holding as on date of this circular by PDs, be effectively met by 30 September 2009.** **PD Performance Criteria:** Each PD should be required to ensure compliance of **minimum underwriting target of 3.5% to be applied on the Pre-auction target or the issued amount, whichever is lower, for respective tenors of PIBs** (July-June). Each PD should bring a **minimum of 5.0% of the NCB target of MTBs and PIBs during a fiscal year**. However, for non-competitive bidding, the ceiling for one investor will be linked with pre-auction target i.e. 0.25% of the auction target or PKR 25.0million, whichever is higher. **In case of breach of this limit through submission of multiple bids in one tenor, all such**

		bids would be treated as void.
June 10, 2009	FSCD Circular No. 09	**Foreign Exchange Exposure Limit (FEEL):** To adjust the FEEL of ADs according to the changed market conditions & trade volumes, it has been decided that, effective from June 15th, 2009, the FEEL of ADs would now be calculated as 20% of their Paid-up Capital (free of losses) with a maximum cap of PKR 2,000 million. However, SBP reserves the right to assign the FEEL of any AD below 20% of Paid-up Capital (free of losses), based on the trends observed in the utilization of FEEL. The FEEL of ADs would now be reviewed annually on the basis of annual audited accounts each year and any changes will be advised to each AD individually through separate letter. In the case of banks incorporated in Pakistan the limit would cover all the branches including overseas branches if any, as already advised vide FSCD Circular No 06 referenced above. The assigned FEEL should be meticulously adhered to and any breaches would attract penal actions, as deemed appropriate. The guidelines for calculating the aggregate foreign exchange exposure as conveyed vide Para 4 of FE Circular No. 12 dated May 29, 1999 would remain unchanged.

A-4 Payment System

Date of Announcement	**Circular No.**	**Policy Decision**
January 17, 2009	Circular No. 01	**Operational Guidelines for Credit Card Business in Pakistan** Credit Card business is an important segment of consumer financing offered by the Commercial Banks and DFIs. The number and the volume of transaction are showing a healthy growth of this business. The complex nature of the product coupled with lack of awareness is resulting in rising number of complaints and disputes. In order to streamline the process and support the growing business there is a need of proper and well defined procedures. In this regard 'Operational Guidelines for Credit Card Business in Pakistan" have been developed in consultation with all the stakeholders. The objectives of these guidelines are to: 1. Set the minimum standard of services 2. Promote good banking practices in Credit Card operation 3. Enhance transparency in Credit Card processing 4. Promote fair and cordial relationship

		between institutions and their customers 5. Foster customer confidence in e-banking products and banking system The guidelines are in addition to the existing instructions / guidelines on the subject. Compliance of these guidelines will be observed from March 01, 2009, except where separate deadlines have been mentioned. All non-compliant institutions will be subject to penalty under the relevant clauses of Payment Systems & Electronic Funds Transfer Act 2007 and Banking Companies Ordinance, 1962.