



**PRUDENTIAL REGULATIONS
FOR CORPORATE /COMMERCIAL BANKING**
(Risk Management, Corporate Governance and Operations)

(Revised till January 2015)

**BANKING POLICY & REGULATIONS DEPARTMENT
STATE BANK OF PAKISTAN**

Disclaimer:

State Bank of Pakistan compiles a booklet of Prudential Regulations from time to time for convenience of users. Updated version of such a booklet containing amendments in the regulations made through circulars/circular letters to date is being issued. Due care has been taken while incorporating amendments, however, errors and omission may be expected. In case of any ambiguity, users are advised to refer to the original circulars/ circular letters on the relevant subject(s), which are available on SBP's website (www.sbp.org.pk).

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PREFACE

In order to align the regulatory framework to changing business environment and the best international practices, the State Bank of Pakistan, in consultation with stakeholders, has revised the Prudential Regulations on Risk Management, Corporate Governance and Operations for Corporate & Commercial Banking. The revised regulations aim to assist banks/DFIs in better addressing their unique risk factors and dynamic environment by giving more discretion in business decisions. These regulations also describe minimum prudential benchmarks in critical risk areas to balance the considerations of financial stability of banks/DFIs vis-à-vis diversity and innovation.

2) These Prudential Regulations do not supersede directives and instructions issued by the State Bank in respect of areas not covered under these regulations. Banks/DFIs that are compliant to the revised or new limits as introduced in these regulations shall follow the same instantly. However, such institutions which are in breach of these limits will have to achieve the compliance by 30-06-2015, unless otherwise specifically mentioned in the regulations.

3) Banks/DFIs are advised to ensure meticulous compliance of these Regulations in letter and spirit. Any non-compliance or circumvention of the requirements will attract punitive action under the provisions of the Banking Companies Ordinance, 1962.

SHAUKAT ZAMAN
Director
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PART - A
DEFINITIONS

For the purpose of these regulations: -

1.Account Holder means a person who has opened any account with a bank directly or through branchless banking agent or is a holder of deposit/deposit certificate or any instrument representing deposit/placing of money with a bank/DFI or has borrowed money from the bank/DFI.

2.Branchless Banking Agent means an agent providing banking services to the customers of a bank/DFI on behalf of the bank/DFI/MFBs under a valid agency agreement.

3.Alternate Director means a person who has been designated by a director during his absence, as per provisions of the sub-section (2) of section 192 of Companies Ordinance, 1984.

4.Bank means a banking company as defined in the Banking Companies Ordinance, 1962.

5.Borrower or Obligor means a person on whom a bank/DFI has taken any exposure during the course of business.

6.Chief Executive Officer (CEO), in relation to bank/DFI means an individual who, subject to the control and directions of the Board of Directors, is entrusted with the whole, or substantially the whole, of the powers of management of the affairs of the bank/DFI occupying the position of Chief Executive Officer and include President, acting President, Managing Director, Country Head of Foreign bank, Executive assuming charge of the bank for interim period or by whatever name called, and whether under a contract of service or otherwise.

7.Contingent Liability means:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- b) a present obligation that arises from past events but is not recognized because:
 - i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - ii) the amount of the obligation cannot be measured with sufficient reliability; and includes letters of credit, letters of guarantee, bid bonds/performance bonds, advance payment guarantees and underwriting commitments.

8.Control refers to an ownership directly or indirectly through subsidiaries, of more than one half of voting power of an enterprise.

9.Corporate Card means credit card issued to the employees of an entity where the repayment is to be made by the said entity.

10. Derivative means a type of financial contract the value of which is determined by reference to one or more underlying assets or indices. The major categories of such contracts include forwards, futures, swaps and options. Derivative also includes structured financial products that have one or more characteristics of forwards, futures, swaps and options.

11. DFI means Development Financial Institution and includes the Saudi Pak Industrial and Agricultural Investment Company Limited, Pak Kuwait Investment Company Limited, Pak Libya Holding Company Limited, Pak Oman Investment Company (Pvt.) Limited, House Building Finance Company Limited, Pak Brunei Investment Company Limited, PAIR Investment Company Limited, Pak-China Investment Company Limited, and any other financial institution notified under Section 3-A of the Banking Companies Ordinance, 1962.

12. Documents include vouchers, cheques, bills, pay-orders, promissory notes, securities for leases/advances and claims by or against the bank/DFI or other papers supporting entries in the books of a bank/DFI or any other document which establishes relationship between the bank/DFI and

its customers.

13. Director includes any person occupying the position of a director on the Board of a bank/DFI and includes sponsor, nominee and alternate director or by whatever name called.

14. Executive Director¹ means a paid employee or executive in the concerned bank/DFI who is also a member of the Board of Directors².

15. Equity of the Bank/DFI includes paid-up capital in respect of ordinary shares, general reserves, balance in share premium account, reserve for issue of bonus shares, statutory reserves, and retained earnings/accumulated losses as disclosed in latest annual audited financial statements. In case of branches of foreign banks operating in Pakistan, equity will mean capital maintained, free of losses and provisions, under Section 13 of the Banking Companies Ordinance, 1962.

For the purpose of Regulation R-1, reserve shall also include revaluation reserves on account of fixed assets to the extent of 50% of their value. However, for this purpose assets must be prudently valued by valuers on the panel of Pakistan Banks Association (PBA), fully taking into account the possibility of price fluctuations and forced sale value. Revaluation reserves reflecting the difference between the book value and the market value will be eligible up to 50%.

16. Exposure shall include:

- A) Financing Facilities whether fund based or non-fund based extended by a bank /DFI and include:
- i) Any form of financing facility extended or Bills purchased/discounted, Bills purchased / discounted on the guarantee of the person.
 - ii) Credit facilities extended through Corporate Cards.
 - iii) Any financing obligation undertaken on behalf of the person under a letter of credit including a stand-by letter of credit, or similar instrument.
 - iv) Loan repayment financial guarantees issued on behalf of the person.
 - v) Any obligations undertaken on behalf of the person under any other guarantees including underwriting commitments.
 - vi) Acceptance/endorsements made on account.
 - vii) Any other liability assumed on behalf of the person to advance funds pursuant to a contractual commitment.

B) Subscription to or investment in shares, Participation Term Certificates, Term Finance Certificates, Sukuk or any other Commercial Paper by whatever name called issued or guaranteed by the persons.

C) Exposure (Net open position) on account of derivative transactions allowed under Financial Derivatives Business Regulations (FDBR) issued vide BSD Circular No. 17 dated November 26, 2004. For the purpose of calculating exposure, the sanctioned limits, or outstanding, whichever are higher, will be considered. However, in case of fully drawn term loans where there is no scope for re-drawal of any portion of the sanctioned limit, bank/DFI may consider the outstanding as exposure.

17. Family Member as defined in sub-section (ff) of section 5 of Banking Companies Ordinance 1962.

18. Financial Institutions for the purpose of these regulations mean Banks, Development Financial Institutions (DFIs) and NBFCs.

19. Forced Sale Value (FSV) means the value which fully reflects the possibility of price fluctuations and can currently be obtained by selling the mortgaged/pledged assets in a forced/distressed sale conditions.

20. Government Securities shall include such types of Pak. Rupee obligations of the Federal

¹ Amended vide BPRD Circular Letter No. 06 of 2012 dated March 21, 2012

Government or a Provincial Government or of a Corporation wholly owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government and guaranteed by the Federal Government as the Federal Government may, by notification in the Official Gazette, declare, to the extent determined from time to time, to be Government Securities.

21. Group means persons, whether natural or juridical, if one of them or his dependent family members or its subsidiary, have control or hold substantial ownership interest (as defined in these regulations) over the other.

For the purpose of this definition:

a) **Subsidiary** will have the same meaning as defined in section 3 of the Companies Ordinance, 1984 i.e. a company or a body corporate shall be deemed to be a subsidiary of another company if that other company or body corporate directly or indirectly controls, beneficially owns or holds more than 50% of its voting securities or otherwise has power to elect and appoint more than 50% of its directors.

b) **Control** refers to an ownership directly or indirectly through subsidiaries, of more than one half of voting power of an enterprise.

c) **Substantial ownership/affiliation** means beneficial shareholding of more than 25% by a person and/or by his dependent family members, which will include his/her spouse, dependent lineal ascendants and descendants and dependent brothers and sisters. However, shareholding in or by the Government owned entities and financial institutions will not constitute substantial ownership/affiliation, for the purpose of these regulations.

22. Independent Director means such a person who is not linked directly or indirectly with bank/DFI or its sponsor or strategic shareholders. For the purpose of such determination, an "independent director" is a director who:

- Has not been employed by Bank /DFI within the last five years;
- Has not been an employee or affiliate of any present or former external auditor/consultant/legal advisor of Bank/DFI within the last three years;
- Has not been an executive officer or employee of a subsidiary or associate company of the bank/DFI or where Directors of the bank/DFI has substantial beneficial interest (20% or more shareholding of director's own or combined with family members);
- Has not been employed by a company of which an executive officer of Bank/DFI has been a director within the last three years;
- Is not affiliated with a not-for-profit entity that received contributions from Bank/DFI exceeding of 10 million or 2 percent of such charitable organization's consolidated gross revenues during the current fiscal year or any of the last three completed fiscal years.

(Note: An independent director shall submit a declaration for his/her independence to SBP at the time of his/her appointment.)

23. Key Executive¹ means key executives of banks/DFIs and includes the following functional responsibilities for the present:

- a) Any executive, acting as second to CEO including Chief Operating Officer, Deputy Managing Director or by whatever name called
- b) Chief Financial Officer/Head of Finance/Head of Accounts
- c) Head of Internal Audit
- d) Country Treasurer
- e) Head of Credit/Risk Management
- f) Head of Operations
- g) Head of Compliance
- h) Head of Human Resource
- i) Head of Information Technology
- j) Head of Islamic Banking
- k) Head of overseas operations of a bank at head office level ²
- l) Country Head/Regional Head (where a region is consisting of more than one foreign countries)

¹ Inserted vide BPRD Circular No. 04 of 2007 dated April 23, 2007.

² k) to n) inserted vide BPRD Circular No. 05 of 2009 dated March 05, 2009.

- m) CEO/Head of subsidiary banking company outside Pakistan
- n) CEO of Joint Venture (where majority stake is with the bank incorporated in Pakistan & authority to appoint CEO)

The above list will be reviewed from time to time by SBP.

24. Large Exposure means an exposure of 10% or more of a bank's/DFI's equity to a single obligor or a group.

25. Liquid Assets are the assets which are readily convertible into cash without recourse to a court of law and mean encashment/realizable value of government securities, bank deposits, certificates of deposit, shares of listed companies which are actively traded on the stock exchange, NIT Units, certificates of mutual funds, Certificates of Investment (COIs) issued by DFIs/NBFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan, listed TFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan and certificates of asset management companies for which there is a book maker quoting daily offer and bid rates and there is active secondary market trading. These assets with appropriate margins should be in possession of the banks/DFIs with perfected lien.

Guarantees issued by domestic banks/DFIs when received as collateral by banks/DFIs will be treated at par with liquid assets whereas, for guarantees issued by foreign banks, the issuing banks' rating, assigned either by Standard & Poors, Moody's or Fitch-IBCA, Japan Credit Rating Agency (JCRA) should be 'A' and above or equivalent.

The inter-branch indemnity/guarantee issued by the bank's overseas branch in favor of its sister branch in Pakistan, would also be treated at par with liquid assets, provided the bank is rated 'A' and above or equivalent either by Standard & Poors, Moody's, Fitch-IBCA or Japan Credit Rating Agency (JCRA). The indemnity for this purpose should be similar to a guarantee i.e. unconditional and demand in nature.

26. Major Shareholder of a bank/DFI means any person holding 5% or more of the share capital of a bank/DFI either individually or in concert with family members.

27. Medium and Long Term Facilities mean facilities with maturities of more than one year and Short Term Facilities mean facilities with maturities up to one year.

28. NBFC means Non-Banking Finance Company as defined in Section 282A of Companies Ordinance 1984 and includes Leasing Company, Housing Finance Company, Investment Bank, Discount House, Asset Management Company and a Venture Capital Company. For the purpose of these regulations Modaraba will also be considered as NBFC.

29. Nominee Director means a person nominated on the board of a bank/DFI by sponsor(s), persons, company, institution etc. by virtue of his/their shareholding in a bank/DFI.

30. PBA means Pakistan Banks Association.

31. Person means and includes an individual, a Hindu undivided family, a firm, an association or body of individuals whether incorporated or not, a company and every other juridical person.

32. Recognized Rating Agency means rating agency either on the approved panel of State Bank of Pakistan or Standard & Poor's, Moody's, Fitch or Japan Credit Rating Agency (JCRA)

33. Related Party in respect of a bank / DFI means:

- a.) Directors, CEO, sponsor shareholders, employees or any of their family members.
- b.) Any entity (proprietorship, firm, company or trust) in which a bank / DFI or any of the above persons are interested as director, proprietor, partner or as a shareholder holding 5% or more of paid-up capital in that entity.
- c.) Any other entity which for its business acquisition or provision of services relies / depends to a greater extent on the bank/DFI i.e. major portion (50% or more) of its business (upstream or downstream) is with the bank/DFI.
- d.) The relationship of the related party on the basis of Nominee Director appointed by

Federal/Provincial government by virtue of their shareholding shall be excluded from this definition. However, it shall include personal/family business interests of such director.

34. Secured means exposure backed by liquid assets, pledge stock, mortgage of land, plant, building, machinery or any other fixed assets, hypothecation of stock (inventory), trust receipt, assignment of receivable, lease rentals, and contact receivables but does not include hypothecation of household goods. The unsecured exposure will be considered as clean.

35. Sponsor Shares¹ mean 5% or more paid-up shares of a bank, acquired by a person(s) individually or in concert with his family members (including his spouse, lineal ascendants and descendants and dependent brothers and sisters), group companies, subsidiaries, and affiliates/associates. Such acquisition of shareholding will include all the shares acquired by aforesaid person(s) including, inter alia, through (a) as original subscriber/promoter of the bank; (b) subsequent right/bonus issues; (c) market based acquisition deal; (d) reconstruction/restructuring of a bank carried out by SBP; (e) strategic sale through privatization (f) amalgamation of banking companies; or (g) any other mode of acquisition. All shares acquired by common shareholders, who are also sponsor shareholders, of amalgamating banking companies in amalgamation transaction shall be considered Sponsor Shares.

36. Sponsor Shareholders² mean all those shareholders of a bank holding sponsor shares.

37. Sponsor Director³ means the member of the Board of Directors of a bank holding sponsor shares.

38. Strategic Investment is an investment which a bank/DFI makes with the intention to hold it for a period of minimum 5 years.

The following must be noted further in respect of strategic investment:

- a. The bank should mark strategic investment as such at the time of investment.
- b. If there are a series of purchases of stocks of a company, the minimum retention period of 5 years shall be counted from the date of the last purchase.

39. Substantial ownership/affiliation⁴ means beneficial shareholding of more than 20% by a person and/or by his dependent family members, which will include his/her spouse, dependent lineal ascendants and descendants and dependent brothers and sisters. However, shareholding in or by the Government owned entities and financial institutions will not constitute substantial ownership/affiliation, for the purpose of these regulations.

40. Underwriting Commitments mean commitments given by commercial banks/DFIs to the limited companies at the time of new issue of equity/debt instrument, that in case the proposed issue of equity/debt instrument is not fully subscribed, the un-subscribed portion will be taken up by them (commercial banks/DFIs).

¹ Introduced vide BPRD Circular 4 of 2008 dated May 22, 2008.

² Introduced vide BPRD Circular 4 of 2008 dated May 22, 2008.

³ Introduced vide BPRD Circular 4 of 2008 dated May 22, 2008.

⁴ Introduced vide BPRD Circular No. 04 of 2007 dated April 23, 2007.

PART - B

REGULATIONS

REGULATION R-1
EXPOSURE LIMITS

1. Single Obligor/Group Limit

Exposure Limits for a single obligor, and obligor Group effective from 31-12-2013 and onward would be as under:

Effective date	Exposure limit as a % of bank's/DFI's equity (as disclosed in the latest audited financial statements)			
	For single obligor		For obligor group	
	Total (fund and non-fund based) exposure limit	Fund based limit	Total (fund and non-fund based) exposure limit	Fund based limit
31-12-2013	25	25	25	25
30-06-2015	20	20	25	25

2. Related Party Exposure Limit:

Maximum exposure limit of a bank/DFI to its related party or group of related parties would be as under:

Effective Date	Total exposure limit as a % of bank's/DFI's equity (as disclosed in the latest audited financial statements)	
	For Single Related Party	For Related Group
30-06-2015	7.5%	15%

The related party exposures shall be subject to the following:

- a) Loans given to employees under the Bank's/DFI's respective Human Resource policies duly approved by its BOD or Country Head (in case of branches of foreign banks) are excluded from this limit.
- b) Placement of funds of FE-25 deposits by the bank with its own branches/subsidiaries overseas shall also be excluded from this limit.
- c) Bank's/DFI's investment in common shareholding of its subsidiaries shall not be counted towards this exposure limit.
- d) Facilities extended to related parties should be at arm's length basis and on normal terms & conditions applicable to other borrowers of the bank/DFI. Further, banks/DFIs shall ensure that the standards are not compromised in such cases and market rates are used while extending facilities to related parties.
- e) Banks shall also follow the requirements of section 24 of the Banking Companies Ordinance, 1962.

3. For the purpose of para 1 and 2 above, banks/DFIs are required to follow the guidelines given at [Annexure-I](#). It is further clarified that the group will also cover SMEs, in cases where these are owned by the same group.

4. Large Exposure Limit:

The aggregate amount of large exposures of a bank/DFI shall not, at any point in time, exceed 50% of its total gross advances and investments (excluding investment in government securities and loans secured against GOP guarantees). Large exposure limits shall not be applicable to investment in government securities and loans secured against GOP guarantees.

5. Different concentration limits may be assigned to different banks/DFIs by SBP based on their supervisory assessment.

REGULATION R-2
LIMIT ON EXPOSURE AGAINST CONTINGENT LIABILITIES

1. Contingent liabilities of a bank/DFI shall not exceed at any point in time 10 times of its equity.

2. The banks/DFIs that are Authorized Derivative Dealers in terms of BSD Circular No. 17 of 2004 shall restrict their exposure to derivatives up to 5 times of their equity within overall limit of contingent liabilities.
3. Following shall not constitute contingent liabilities for the purpose of this regulation:
 - a) Bills for collection.
 - b) Non-fund based exposure to the extent covered by cash/liquid assets.
 - c) Letters of credit/guarantee where the payment is guaranteed by the State Bank of Pakistan/Federal Government or banks/DFIs rated at least 'A' by a recognized rating agency.
 - d) Claims other than those related to provision of facilities (fund based or non-fund based) to the banks'/DFIs' constituents, where the probability of conversion of these claims into liabilities are remote.
4. For the purpose of this regulation, weightage of 50% shall be given to bid/mobilization advance/performance bonds and 10% to forward foreign exchange contracts.

REGULATION R-3

FINANCIAL ANALYSIS & OTHER CONDITIONS

1. Financial Analysis:

- a) At the time of allowing any exposure (including renewal, enhancement and rescheduling / restructuring) and annual review of long term facilities, Banks/DFIs shall, as a matter of rule, obtain a copy of financial statements relating to the business of every borrower. The financial statements should be duly audited by a practicing Chartered Accountant. In case of a borrower other than a public company or a private company which is a subsidiary of a public company, financial statements audited by a practicing Cost and Management Accountant are reckoned equally acceptable. However, if the borrower is a public limited company and aggregate exposure from all Banks/DFIs exceeds Rs. 500 million, banks/DFIs should obtain the financial statements duly audited by a firm of Chartered Accountants which has received satisfactory rating under the Quality Control Review (QCR) Program of the Institute of Chartered Accountants of Pakistan. Subsequently, if the firm's rating is downgraded in QCR program, then the financial statements of such borrowers should be audited in the subsequent year by a firm having satisfactory rating under QCR.
- b) In case of public sector entities and allied departments / divisions of government which are not under obligation to prepare and get audited their annual financials from accounting firms, banks/DFIs should devise criteria to obtain management accounts or some other mechanism be adopted to assess their financial position and performance.
- c) The Board of Directors of the bank/DFI shall approve a credit policy prescribing a minimum current ratio and linkage between borrower's equity and its total financing facilities from all financial institutions. The Credit Policy shall emphasize upon higher credit standards and provide full guidance to the management about the above requirements for various categories of clients and corresponding risk mitigants etc. acceptable to the bank/DFI. The policy shall also have explicit provisions for circumstances or conditions under which the bank/DFI may extend financing facilities that are in breach of these limits, should the bank decide to do so. The policy shall clearly provide approving authorities that would be responsible to allow exemptions in accordance with the policy. All such exceptions allowed shall be reported to the Board of Directors at least on quarterly basis.
- d) Banks/DFIs are advised to properly assess the credit need of the borrower based on their financial analysis and genuine credit requirements.

2. **Credit Report** While considering proposals for any exposure (including renewal, enhancement and rescheduling/restructuring), banks/DFIs should give due weightage to the credit report relating to the borrower and its group obtained from Credit Information Bureau (CIB) of State Bank of Pakistan. If the banks/DFIs decide to take exposure on defaulters, they should strictly follow their risk management policies and credit approval criteria and properly record reasons and justifications in the approval form. The banks/DFIs shall ensure that CIB report is not older than two months at the time of approval of credit limits.

3. Borrower Basic Fact Sheet Banks/DFIs are required to obtain Borrower's Basic Fact Sheet (BBFS) as per format given at *Annexure-II* from their prospective borrowers at the time of sanctioning fresh facility, or enhancement, renewal, rescheduling and restructuring of an existing facility. However, if the Loan Application Form already contains all the information as required in BBFS, then no separate BBFS may be required.

REGULATION R-4 **SECURITY AND MARGIN REQUIREMENTS**

1. Security Requirements

a) All exposures shall be adequately secured. However, banks/DFIs, in aggregate, may provide clean financing facility in any form up to Rs 2,000,000/- (Rupees two million only) to any single obligor. Financing facilities granted without securities including those granted against personal guarantees shall be deemed as 'clean' for the purpose of this regulation. Further, at the time of granting a clean facility, banks/DFIs shall obtain a written declaration to the effect that the borrower, has not availed of such facilities from other banks/DFIs so as to exceed the prescribed limit of Rs 2,000,000/- in aggregate.

b) In case of clean placements with banks/DFIs in Pakistan, single obligor limits given in Prudential Regulation R-1 shall be observed. However, for Banks/DFIs rated below 'A-3' (short term) or 'BBB' (long term) clean exposure limit given in para a) above shall be applicable.

c) In case of Nostro Balances with financial institutions abroad, banks shall prudently set limits duly approved by their Board of Directors and that shall be exempt from the above limits.

d) Banks/DFIs shall ensure that the aggregate exposure against all their clean facilities shall not, at any point in time, exceed the amount of their equity as disclosed in their latest audited financial statements. However, following shall be excluded / exempted from aggregate limits for unsecured / clean exposure:

(i) Facilities provided to finance the export of commodities eligible under Export Finance Scheme backed by LCs.

(ii) Financing covered by the guarantee of Pakistan Export Finance Guarantee Agency up to the amount of guarantee.

(iii) Loans/ advances given to the employees of the banks/ DFIs in accordance with their entitlement / staff loan policy.

(iv) Investment in COIs / interbank placements with NBFCs, provided the investee NBFC is at least rated 'A' for long-term rating and 'A2' for short-term rating or equivalent by a recognized rating agency.

(v) Investment of banks/DFIs in subordinated and unsecured TFCs, issued by other banks/DFIs to raise Tier-II Capital as per State Bank of Pakistan's instructions.

e) Banks/DFIs will be free to decide about obtaining security/collateral against the L/C facilities for the interim period, i.e. from the date of opening of L/C till the receipt of title documents to the goods.

2. Requirement of Personal Guarantee

Banks/DFIs shall formulate a policy, duly approved by their Board of Directors, about obtaining personal guarantees of directors of private limited companies. Banks/DFIs may, at their discretion, link this requirement to the credit rating of the borrower, their past experience with it or its financial strength and operating performance.

3. Margin Requirements

a) Banks/DFIs are free to determine the margin requirements on facilities provided by them to their clients taking into account the risk profile of the borrower(s) in order to secure their interests. However, in cases where margin has been prescribed by State Bank/Government of Pakistan, appropriate margin shall at least be equal to the prescribed margin.

b) Exposure against the shares of listed companies shall be subject to minimum margin of 30% of their current market value. However, the banks/DFIs may consider to set higher margin requirements, and maintain list of shares acceptable as security, keeping in view liquidity, trading activity and other factors. Banks/DFIs will monitor the margin at least on weekly basis and will take appropriate action for top-up and sell-out on the basis of their Board of Directors' approved credit policy and prior

written authorization from the borrower enabling the bank/DFI to do this.

c) Exposure against TFCs/Sukuks rated 'BBB' and above by a credit rating agency on the approved panel of State Bank of Pakistan shall be subject to a minimum margin of 20%.

d) The cash margin requirement of 100% on Caustic Soda (PCT heading 2815.1200) for opening Import Letter of Credit as advised by the Federal Government and notified in terms of BPD Circular Letter No. 5 dated 4th May, 2002, will also continue to remain applicable.

REGULATION R-5 **MONITORING**

1. Collateral Management

a) The banks/DFIs shall have in place Collateral Management Policy duly approved by the BOD or Country Head (in case of branches of foreign banks). The policy may be part of the bank's overall credit policy or separate as deemed appropriate by the bank/DFI. The Policy shall cover different aspects related to collateral such as generally acceptable forms, quality, valuation at the time of acceptance as well as over the tenor of loan, haircuts, price volatility, diversification, margin calls limits, substitution of collateral and managing collateral in the event of a counterparty default.

b) The policy shall clearly delineate the responsibilities in various scenarios, including safe custody & inspection of collateral, where bank/DFI is a sole lender or where it is one of multiple lenders. In the later case the policy should cover the aspect of coordination with other financial institutions particularly where financing is made against hypothecation of stock and/or receivables on pari-passu or ranking charge basis and pledge of stock.

c) The Banks/DFIs shall devise an appropriate mechanism to ensure that the financing extended is utilized for the intended purpose. Further, they will also ensure that financing is not used for non productive purpose like hoarding, speculation etc.

2. Joint Inspection of Pledged Stocks

a) All the banks/DFIs financing any particular customer against pledge of stocks of below mentioned commodities shall conduct joint inspection of the pledged stocks at least once in a quarter, where aggregate exposure against such stocks equals or exceeds the amount shown against each commodity:

Sr. No.	Commodity	Aggregate Committed Exposure (limits)
1	Cotton (bales), excluding phutti	Rs. 500 million
2	Sugar	Rs. 500 million
3	Wheat	Rs. 250 million
4	Rice/Paddy	Rs. 150 million
5	Edible Oil	Rs. 250 million

Nonetheless, the banks/DFIs can, if they decide so, voluntarily conduct joint inspections for smaller committed exposures and for commodities other than the ones mentioned above.

b) The bank/DFI with the largest committed exposure (limit) shall act as the lead bank/DFI to coordinate the quarterly joint inspection. In case two or more banks/DFIs have the same level of highest committed exposure, they shall mutually agree on which bank/DFI to assume the responsibility. The lead bank/DFI once selected shall perform coordination for one year and subsequently transfer the responsibility if, during the one year period, some other bank/DFI commits the largest exposure. In case of syndicate financing against pledge of stocks, the agent bank/DFI shall act as the lead bank/DFI for coordinating the quarterly joint inspection.

c) The Borrower's Basic Fact Sheet (BBFS) shall serve as the main source for obtaining information on exposures committed by the banks/DFIs against pledged stocks for any particular customer. Any bank/DFI taking exposure on a customer against pledge of stocks shall inform, after seeking prior written consent from obligor as per law, about the same to all the banks/DFIs already financing that customer, within five working days of the credit approval.

REGULATION R-6
EXPOSURE IN SHARES AND TFCs/SUKUK

1. Acquisition of Shares/Mutual Funds:

A. Single Company Investment Limit:

- i) Banks / DFIs shall not own shares of any single company in excess of 5% of their own equity. This limit will also be applicable to units of all types of mutual funds and REITs.
 - ii) Banks/DFIs will obtain prior approval from the State Bank for purchasing shares of a company exceeding, in aggregate, 10% of the capital of Investee Company or 5% of their paid-up capital, whichever is lower. These limits will be calculated as under:
 - iii) In the case of investee company, limit will be calculated by taking 10% of the number of its paid-up shares,
 - iv) In the case of investing bank/DFI, limit will be calculated by taking 5% of paid-up shares of the bank/DFI, and then multiplying with their face value.
- The bank's/DFI's request will be considered in the light of the nature of relationship of the investing bank and the investee company. Further, other factors, such as financial standing of the investing bank, its aggregate investment portfolio, experience in managing the same, efficacy of internal controls etc. will also be taken into account.

B. Aggregate Investment Limits:

- i.) Aggregate equity investment limit for banks, and DFIs which are mobilizing funds as deposits/COIs from general public/individuals, shall be 30% of their respective equity.
- ii.) For Islamic banks, and DFIs which are not mobilizing funds as deposits/COIs from general public/individuals, the aggregate investment limit will be 35% of their respective equity.
- iii.) Within the above limits, Banks/DFIs may take maximum exposure in future contracts up to 10% of their equity on aggregate basis. In this connection, the 10% exposure limit for future contracts will include both positions taken in futures buying and selling.
- iv.) Exposure as a result of strategic investment and investment in units of all forms of Mutual Funds, excluding NIT units till its privatization, shall also be considered part of above limits.
- v.) Aggregate investment limit in units of REIT shall be 10% of equity of the bank/DFI, exclusive of the above aggregate limits.
- vi.) Investments of the bank/DFI in its subsidiary companies (listed as well as non-listed) shall not be included in these limits.

2. The limits prescribed in para 1 above shall not apply to the shares acquired due to the underwriting commitments, satisfaction of debts or debt-equity conversion scheme. However these will be sold off/off loaded within a period of eighteen months; otherwise the same will be counted towards the above limit from the expiry of that period. The banks/DFIs are required to plan their disposal to ensure compliance within the due date.

3. Investment in preference shares, which fulfill the criteria of equity instrument as laid down in *Annexure-III*, shall be considered as part of investment in equities. Correspondingly, any investment in preference shares that do not conform to these conditions shall not be included in the limits prescribed under this regulation. However, such investment portfolio will be considered as part of the maximum exposure limit as prescribed under R-1 of these regulations.

4. For the purpose of calculating bank's/DFI's exposure, investments will be valued at cost of acquisition unless mentioned otherwise. While calculating the maximum limit for investment in shares, the amount of provisions created against permanent impairment by debiting the Profit & Loss account, as instructed vide BSD Circular No.10 dated July 13, 2004, may be deducted from the cost of acquisition of such investments and the maximum limit.

5. Financing against Shares/TFCs/Sukuk

Banks/DFIs shall not:

- a) take exposure against the security of shares/TFCs/Sukuk issued by them.
- b) provide unsecured credit to finance subscription towards floatation of share capital and issue of TFCs/Sukuk.
- c) take exposure against the non-listed TFCs/Sukuk or the shares of companies not listed on the Stock Exchange(s). However, banks/DFIs may make direct investment in non-listed TFCs.

- d) take exposure on any person against the shares/TFCs/Sukuk issued by that person or its group companies.
- e) take exposure against 'sponsor director's shares' (issued in their own name or in the name of their family members) of banks/DFIs.
- f) take exposure on any one person (whether singly or together with other family members or companies owned and controlled by him or his family members) against shares of any commercial bank/DFI in excess of 5% of paid-up capital of the share issuing bank/DFI.
- g) take exposure against the shares/TFCs of listed companies that are not member of the Central Depository System.
- h) take exposure against unsecured or non-rated TFCs or TFCs rated below 'BBB' or equivalent. Exposure may, however, be taken against unsecured/subordinated TFCs, which are issued by the banks/DFIs for meeting their minimum capital requirements, as per terms and conditions stipulated in BSD Circular No. 8 of June 27, 2006.
- i) take exposure against shares unless the beneficiary of the facility is absolute owner of the shares so pledged or has the necessary mandate to pledge the shares of third party as security for availing financing facility from the bank/ DFI.

REGULATION R-7
GUARANTEES

1. All guarantees issued by the banks/DFIs shall be fully secured, except in the cases mentioned at [Annexure-IV](#) where it may be waived up to 50% by the banks/DFIs at their own discretion, provided that banks/DFIs hold at least 20% of the guaranteed amount in the form of liquid assets as security.
2. The banks/DFIs can issue guarantees on behalf of Pakistani firms and companies functioning in Pakistan against the back to back/counter-guarantees of banks/DFIs rated at least 'A' or equivalent by a credit rating agency on the approved panel of State Bank of Pakistan. Besides, the counter-guarantee of bank/DFI situated in a foreign country is also acceptable if it has the rating of at least 'A' or equivalent on global or National Rating scale by Standard & Poor, Moody's, Fitch, Japan Credit Rating Agency (JCRA) or a local credit rating agency of the respective country provided the guarantee issuing bank in Pakistan is comfortable with and accepts the counter -guarantee of such foreign bank.
3. Furthermore, the Banks/DFIs may provide guarantees/ performance bonds, in favour of residents of Pakistan, on the basis of counter guarantee of the banks falling within the world ranking of 1000 on the basis of Balance Sheet size. In this regard the banks/DFIs will have a Board approved policy having internal limits for acceptance of such counter guarantees based on, inter alia, their own risk appetite and risk profile of the counter-guarantee issuing bank. The Banks/DFIs shall also institute a mechanism to monitor such limits.
4. Banks/DFIs shall ensure that counter-guarantees received are properly evaluated and their own guarantees against such guarantees are issued with due care.
5. Cases where payments are not received within 20 working days by the banks/DFIs when the guarantees of overseas banks are invoked, shall be reported to SBP indicating the steps being taken by the bank/DFI to recover the amount due under the guarantee.
6. In case of back to back letter of credit issued by the banks/DFIs for export oriented goods and services, banks/DFIs are free to decide the security arrangements at their own discretion subject to the condition that the original L/C has been established by branches of guarantee issuing bank or a bank rated at least 'A' by Standard & Poor, Moody's, Fitch or Japan Credit Rating Agency (JCRA).
7. The guarantees shall be for a specific amount and expiry date and shall contain claim lodgment date. However, banks/DFIs are allowed to issue open-ended guarantees without clearance from State Bank of Pakistan provided banks/DFIs have secured their interest by adequate collateral or other arrangements acceptable to the bank/DFI for issuance of such guarantees in favour of Government departments, corporations/autonomous bodies owned/controlled by the Government and guarantees required by the courts.

REGULATION R-8
CLASSIFICATION AND PROVISIONING FOR ASSETS

1. Loans/Advances:

a) Banks/DFIs shall observe the prudential guidelines given at [Annexure-V](#) in the matter of classification of their asset portfolio and provisioning there-against on time based criteria.

b) In addition to the time-based criteria prescribed in Annexure-V, subjective evaluation of performing and non-performing credit portfolio shall be made for risk assessment and, where considered necessary, any account including the performing account will be classified, and 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 credit worthiness of the borrower, its cash flow, operation in the account, adequacy of the security, inclusive of its realizable value and documentation covering the advances.

2. Benefit of collateral/security held:

a) Banks/DFIs are allowed to take the benefit of Forced Sale Value (FSV) of the pledged stocks, plant & machinery under charge, and mortgaged residential, commercial and industrial properties held

Category of Asset	Forced Sale Value Benefit allowed from the date of classification
Mortgaged residential, commercial and industrial properties (land & building only)	<ul style="list-style-type: none"> • 75% for first year • 60% for second year • 45% for third year • 30% for fourth year, and • 20% for fifth year
Plant & Machinery under charge	<ul style="list-style-type: none"> • 30% for first year • 20% for second year, and • 10% for third year
Pledged stock	<ul style="list-style-type: none"> • 40% for first, second, and third year

as collateral against Non Performing Loans (NPLs) for calculating provisioning requirement as tabulated above.

The benefit of FSV against NPLs shall not be available after the period prescribed above. For the purpose of determination of FSV, [Annexure-VI](#) of PR for Corporate / Commercial Banking shall be followed.

b) Banks/DFIs may avail the above benefit of FSV subject to compliance with the following conditions:

- i.) The additional impact on profitability arising from availing the benefit of FSV shall not be available for payment of cash or stock dividend/bonus to employees.
- 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; and
- iii.) Borrower-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 team during regular/special inspection.

c) Any misuse of FSV benefit detected during regular/special inspection of State Bank shall attract strict punitive action under the relevant provisions of the Banking Companies Ordinance, 1962. Furthermore, State Bank may also withdraw the benefit of FSV from bank/DFI found involved in its misuse.

3. Rescheduling/Restructuring:

a) Banks/DFIs may reschedule/restructure their loans as per their policy but it should not merely to avoid classification. 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 a period of at least one year (excluding grace period, if any) from the date of such rescheduling/restructuring and at least 10% of the total restructured loan

amount (principal + mark-up), is recovered in cash. However, the condition of one year retention period, prescribed for restructured/rescheduled loan account to remain in the classified category, will not apply in case the borrower has repaid or adjusted in cash at least 35% of the total restructured loan amount (principal + mark-up), either at the time of restructuring agreement or later-on during the grace period if any.

b) The unrealized mark-up on loans (declassified after rescheduling/restructuring) shall not be taken to income account unless at least 50% of the amount is realized in cash. However, any short recovery in this respect will not impact the de-classification of this account if all other criteria (meeting the terms and conditions for at least one year and payment of at least 10% of outstanding amount by the borrower) are met. The banks/DFIs are further 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 a loan has been rescheduled or restructured. However, while reporting to the Credit Information Bureau (CIB) of State Bank of Pakistan, such loans/advances may be shown as 'rescheduled/restructured' instead of 'overdue'.

c) Where a borrower subsequently defaults (either principal or mark-up) after the rescheduled/restructured loan has been declassified by the bank/DFI as per above guidelines, the loan will again be classified in the same category it was in at the time of rescheduling/restructuring and the unrealized markup on such loans taken to income account shall also be reversed. However, banks/DFIs at their discretion may further downgrade the classification, taking into account the subjective criteria.

d) At the time of rescheduling/restructuring, banks/DFIs shall consider and examine the requests for working capital strictly on merit, keeping in view the viability of the project/business and appropriately securing their interest etc.

e) All fresh loans granted by the banks/DFIs to a borrower after rescheduling/ restructuring of its existing facilities may be monitored separately, and will be subject to classification under this Regulation on the strength of their own specific terms and conditions.

4. Investments and Other Assets:

The banks shall classify their investments into three categories viz. 'Held for Trading', 'Available for Sale' and 'Held to Maturity'. However, investments in subsidiaries and associates shall be reported separately in accordance with International Financial Reporting Standards as applicable in Pakistan and shall not be subject to mark to market. All investments and other assets shall be tested for impairment periodically. Investment portfolio in 'Held for Trading' and 'Available for Sale' and other assets will be subject to detailed evaluation for the purpose of their classification keeping in view various subjective and objective factors given as under.

a) Quoted Securities:

Government Securities will be valued at PKRV (Reuter Page). TFCs, PTCs, Sukuk and shares will be valued at their market value. The difference between the market value and book value will be treated as surplus/deficit.

b) Un-quoted Securities:

PTCs and TFCs and Sukuk will be classified on the valuation date on the basis of default in their repayment in line with the criteria prescribed for classification of medium and long-term facilities. Shares will be carried at the cost. However, in cases where the breakup value of such shares is less than the cost, the difference of the cost and breakup value will be classified as loss and provided for accordingly by charging to the Profit and Loss account of the bank/DFI.

c) Treatment of Surplus/deficit:

The measurement of surplus/deficit shall be done on portfolio basis in line with BSD Circular No. 10 of 2004 as amended from time to time. That is, surplus/deficit arising as a result of revaluation of 'Held for Trading' securities shall be taken into Profit & Loss Account. The surplus/deficit on revaluation of 'Available for Sale' category shall be taken to "Surplus/Deficit on Revaluation of Securities" through "Statement of Comprehensive Income." and not to Profit and Loss Account. Impairment in the value of 'Available for Sale' or 'Held to Maturity' securities will be provided for by charging it to the Profit and Loss Account.

d) Other Assets:

Classification of Other Assets and provision required there-against shall be determined keeping in view

the risk involved and the requirements of the International Financial Reporting Standards.

5. Timing of Creating Provisions:

Banks/DFIs shall review, at least on a quarterly basis, the collectability 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/DFIs on quarterly basis.

6. Reversal of Provision:

In case of cash recovery banks/DFIs may reverse specific provision held against classified assets, subject to the condition that provision will be maintained in accordance with Annexure V.

However, the accounts classified and provision made on the advice of State Bank of Pakistan will not be declassified / provision will not be reversed without prior approval of State Bank of Pakistan, except in cases where cash recovery has been made through customer's own sources, to the extent that balance provision is maintained in accordance with this regulation.

7. Verification by the Auditors:

The external auditors as a part of their annual audits of banks/DFIs shall verify that all requirements of Regulation R-8 for classification and provisioning for assets have been complied with. The State Bank of Pakistan shall also check the adequacy of provisioning during on-site inspection.

REGULATION R-9

ASSUMING OBLIGATIONS ON BEHALF OF NBFCs

1. Banks/DFIs 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-banking finance company.

2. Banks/DFIs may, however, underwrite TFCs, commercial papers and other debt instruments issued by NBFCs, and issue guarantees in favor of multilateral agencies for providing credit to NBFCs. Banks/DFIs may also allow exposure to any of their client against the guarantee of an NBFC which is rated at least 'A' or equivalent by a credit rating agency on the approved panel of State Bank of Pakistan. However, the banks/DFIs shall ensure that such aggregate exposure remains within the single obligor exposure limit as prescribed in Regulation R-1.

3. Before taking exposure against the guarantee of NBFC, banks/DFIs shall ensure that total guarantees issued by an NBFC in favour of banks/DFIs do not exceed 2.5 times of capital of the NBFC as evidenced by the latest available audited financial statements of the NBFC and such other means as the banks/DFIs may deem appropriate.

REGULATION R-10

PAYMENT OF DIVIDEND

Banks/DFIs shall not pay any dividend on their shares unless and until:

- a) they meet the minimum capital requirement (MCR) and capital adequacy ratio requirement (CAR) as laid down by the State Bank of Pakistan from time to time;
- b) all their 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; and
- c) all the requirements laid down in Banking Companies Ordinance, 1962 relating to payment of dividend are fully complied.

REGULATION G-1

CORPORATE GOVERNANCE/BOARD OF DIRECTORS AND MANAGEMENT

The following guidelines are required to be followed by banks/DFIs incorporated in Pakistan. They will also follow '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. Foreign banks 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 below in the case of local banks/DFIs:

A. FIT AND PROPER TEST

The “Fit and Proper Test” (FPT) is applicable on the sponsors (both individual & companies) who apply for a commercial banking license, the investors acquiring strategic/controlling stake in the banks/DFIs, major shareholders of the banking companies and for the appointment of Directors, CEO, and Key Executives of the banks/DFIs. The fitness & propriety will be assessed on the following broad elements (*Annexure A*):

- a) Integrity, Honesty & Reputation
- b) Track Record
- c) Solvency & Integrity
- d) Qualification & Experience
- e) Conflict of Interest
- f) Others

2. First three elements are applicable to all categories of individuals, whereas the last three elements will be considered while assessing the FPT of Directors, CEO & Key Executives of banks/DFIs. In addition to above requirements, sponsors and strategic investors are evaluated respectively in terms of “Guidelines & Criteria for setting up of a Commercial Bank” & “Criteria for Establishment of Islamic Commercial Banks” issued by SBP and Code of Corporate Governance issued by SECP.

3. The sponsors, the strategic investors, and appointment of the Directors and CEO require prior clearance in writing from SBP. The CEO and Key Executives shall be full time employees of the bank/DFI. The Directors and CEO will not assume the charge of their respective offices until their appointments are approved in writing by SBP. All the requests for seeking approval of SBP for appointment of Directors & CEO of the banks/DFIs should be routed through respective banks/DFIs along with information on *Annexure-I & II (of Corporate Governance)*.

4. The appointment of Key Executives will not require prior clearance of SBP. However, Banks will seek State Bank’s prior approval for overseas appointments.¹ Further, the banks/DFIs must themselves ensure while appointing Key Executives that they qualify FPT in letter and spirit. The information on appointment of Key Executive is required to be forwarded to SBP on prescribed format at *Annexure-III (of Corporate Governance)* within seven days of assumption of the charge of the post by the incumbent. The information submitted may be checked on post fact basis by Banking Inspection Department of SBP during inspection.

5. Further, to ensure compliance with SBP’s FPT Criteria in respect of appointment on key positions, the Banks/DFIs shall conduct prior self assessment of the fitness and propriety of their Directors, Presidents/CEOs and Key Executives and furnish an undertaking to this effect as per enclosed *Annexure-IV (of Corporate Governance)*. Any FPT documents received without the undertaking shall not be considered by SBP.²

6. Moreover, the appointment, compensation package (including retirement benefits), promotion/demotion and renewal of the employment contracts of Key Executives shall invariably be approved by the Board of Directors or the concerned Board Committee of the Bank/DFI. The Board of Directors shall also formulate an organization-wide rotation policy, inter-alia ensuring that the Key Executives are rotated appropriately after having served on a particular position for a reasonable time (five to six years). However, for those Key Executives who have already completed six years in the same position, the rotation should take effect immediately after implementation of rotation policy. Under extreme situations only, the positions of Head of IT, Treasury, HR, Islamic Banking, Legal, Company/Corporate Secretary, Chief Operating Officer (COO) and Deputy CEO/Deputy MD may be exempted from compulsory rotation. Further, the Banks/DFIs shall ensure that none of the posts of Key Executives shall be filled by an executive on acting/additional charge basis for more than three (3) months.

7. The sponsors are required to seek prior approval of SBP along with the information at

¹ Inserted vide BPRD Circular No. 05 of 2009 dated March 05, 2009

² Para 5 & 6 inserted vide BPRD Circular No. 5 of 2015 dated March 12, 2015.

Annexure-II and other information as required in the “Guidelines & Criteria for Setting up a Commercial Bank” and” Criteria for Establishment of Islamic Commercial Banks”. The strategic investors contemplating to acquire strategic/controlling stake are required to seek prior approval from SBP either directly or through the concerned department/Ministry of Government executing strategic sale transaction of the bank as required and provided in the transaction structure. The bank should also ensure to give prior intimation to SBP before dealing with any investors/bank/institutions/person for sale/purchase of sponsors/ strategic shares and seek approval of SBP for conducting due diligence of bank/DFI in terms of BPD Circular No. 8 of 2003.

8. The major shareholders are required to seek prior approval in writing from SBP for acquiring 5% or more shares along-with information on Annexure-II, with proper justification for holding more than 5% shares of the paid up capital. All the banks/DFIs are required to ensure that major shareholders have sought such an approval from SBP and place it on record.

9. Fit & Proper Test prescribed in the guideline is continuous in nature. All persons subject to FPT should immediately submit any change in the information already submitted (at the time of clearance) either through Company Secretary or Human Resources Department to Banking Policy and Regulations Department. Violation of the instructions, circumvention, concealment, misreporting and delay in submission of information to SBP may result in withdrawal of SBP approval, besides penal action under the provisions of BCO.

10. Deposit of sponsor shares in blocked account with Central Depository Company of Pakistan (CDC).¹

- a) All sponsor shares and subsequent right and bonus shares shall be deposited in a blocked account with CDC. The procedure for deposit of sponsor shares in the CDC blocked account is provided at *Annexure-AA of Corporate Governance (BPRD Circular No. 04 of 2008)*.
- b) No withdrawal of the sponsor shares from the blocked account would be allowed without prior written permission of SBP.
- c) Blocked Account should be opened by the sponsor shareholders of banks exclusively for deposit of the sponsor shares and subsequent right and bonus shares issued thereon.
- d) Charges for opening and operating of the blocked account with CDC will be borne by the sponsor shareholders.
- e) These instructions shall not be applicable to the shareholding of Federal and Provincial governments in banks.

11. Every Chairman, Managing Director or Chief Executive Officer (by whatever name called) of a banking company shall furnish to the State Bank of Pakistan through the banking company returns on yearly basis containing full particulars of the extent and value of his holding of shares, whether directly or indirectly, in the banking company and of any change in the extent of such holding or any variation in the rights attaching thereto as per attached annexure (referred as Annexure-I in the circular) within 15 days of the close of each calendar year.²

B. RESPONSIBILITIES OF THE BOARD OF DIRECTORS:

1. The Board of Directors shall assume its role independent of the influence of the Management and should know its responsibilities and powers in clear terms. 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. 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 & regulations and high business ethics.
3. All the members of the Board should undertake and fulfill their duties & responsibilities

¹ Inserted vide BPRD Circular No. 4 of 2008 dated May 28, 2008

² Introduced vide BPRD Circular No. 04 of 2010 dated March 04, 2010.

keeping in view their legal obligations under all the applicable laws and regulations. All Board members should preferably attend at least 1-2 weeks training program(s) which will enable them to play effective role as a director of bank/DFI, at an institution like Pakistan Institute of Corporate Governance or other similar institution within first year of their directorship on the Board of bank/DFI. Further, the Company Secretary of the Banks/DFIs shall provide to all Board members the extracts from the relevant laws, rules and regulations regarding their powers, duties and responsibilities and keep them updated of any revisions/amendments therein.¹

4. The Board shall clearly define the authorities and key responsibilities of both the Directors and the Senior Management without delegating its policy-making powers to the Management and shall ensure that the Management is in the hands of qualified personnel.
5. The Board shall approve and ensure implementation of policies, including but not limited to, in areas of Risk Management, Credit, Treasury & Investment, Internal Control System and Audit, IT Security, Human Resource, Expenditure, Accounting & Disclosure, 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.
6. As regards Internal Audit or Internal Control, a separate department shall be created which shall be manned preferably by professionals responsible to conduct audit of the bank's/DFI's various Divisions, Offices, Units, Branches etc. in accordance with the guidelines of the Audit Manual duly approved by the Board of Directors. The Head of this department will report directly to the Board of Directors or Board Committee on Internal Audit.
7. The business conditions and 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.
8. 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. Any advisor, if appointed by the Board member, shall neither attend the Board meeting(s) on behalf of the Board member nor shall regularly sit in the Board meeting(s) as an observer or any other capacity. Further, the banks/DFIs, incorporated in Pakistan, shall submit certified copies of the minutes of meeting of their Board of Directors (BoD) and the General Meetings /Extra Ordinary General Meetings (AGMs/EOGMs), within twenty one days of the date of the meeting to the Director, Off-site Supervision and Enforcement Department, State Bank of Pakistan, Karachi. It may be ensured that the minutes also contain the details of matters decided/resolved through circulation. The minutes may be forwarded in the form of hard copies, duly certified by the company secretary along with soft copies on a floppy diskette/compact disk.²
9. 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.
10. To share the load of activities, the Board may form specialized committees with well-defined objectives, authorities and tenure. These committees, comprising of at least one non-executive Board member, shall oversee areas like Audit, Risk Management, Credit, and Recruitment, Remuneration & Nomination. The Chairman of the Board shall not be member of the aforementioned committees. Further, the Audit Committee of the Board shall invariably be

¹ Introduced vide BPRD Circular Letter No. 13 of 2011 dated May 28, 2011.

² Introduced vide BPRD Circular No. 02 of 2013 dated March 19, 2013.

chaired by an Independent Director. These committees of the Board should neither indulge in day-to-day affairs/operations of the bank nor enjoy any credit approval authority for transaction/limits. These committees should apprise the Board of their activities and achievements on regular basis.¹

11. 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.
12. Whenever the Board of Directors/relevant appointing/removing authority of a bank/DFI considers to remove its President/Chief Executive Officer/Country Head/Country Manager before the expiration of his/her term of office through the defined statutory process, State Bank of Pakistan (SBP) must invariably be informed at least two months ahead of the implementation of such decision along-with the reasons for the same.²
13. The President/CEO/Country Head/Country Manager, wherever, decides to tender resignation before completion of his/her term of office, he/she must inform SBP at least two months before tendering resignation.
14. The Chairman of the Board of Directors/relevant removing authority of bank/DFI would be responsible for submission of the requisite information to SBP.
15. Acting CEO appointed pursuant to resignation/removal of the CEO is invariably required to meet the FPT Criteria prescribed for the CEO and the Banks/DFIs shall duly submit FPT documents of such person to SBP before assumption of charge. In case of temporary vacation (not exceeding one month) of the office of CEO, the Banks/DFIs shall ensure to entrust charge of the office of CEO to such an officer who meets the FPT Criteria prescribed for Key Executives and whose FPT documents have already been submitted to SBP.³
16. The banks incorporated in Pakistan having foreign participation/equity can hold board meetings abroad in following manner in a calendar year⁴:

17. i.	Banks having more than 51% foreign shareholding and minimum two directors residing abroad.	Maximum of 4 Board Meetings.
ii.	Banks having more than 40% foreign shareholding and minimum one director residing abroad.	3 Board Meetings.
iii.	Banks having upto 40% foreign shareholding and minimum one director residing abroad.	1 Board Meeting.

17. The bank concerned will, however, only inform SBP in writing before its Board Meeting abroad in accordance with the above instructions. The banks/DFIs are advised to hold BoDs meetings at the place of residence of foreign directors. Further, those having no foreign shareholding and directorship shall not be allowed BoDs meetings abroad. They are also encouraged to make maximum use of video conferencing facilities for Board Meetings.

C. MANAGEMENT:

No member of the Board of Directors of a bank/DFI holding 5% or more of the paid-up capital of the bank/DFI either individually or in concert with family members or concerns /companies in which

¹ Amended vide BPRD Circular No. 9 of 2015 dated May 06, 2015.

² Para 12, 13, & 14 amended vide BPRD Circular No. 9 of 2008 dated August 19, 2008

³ Inserted vide BPRD Circular Letter No. 12 of 2011 dated May 13, 2011

⁴ Revised vide BPRD Circular No. 11 of 2013 dated May 06, 2013

he/she has the controlling interest, shall be appointed in the bank /DFI in any capacity except as Chief Executive of the bank/DFI. Further, maximum two members of Board of Directors of a bank/DFI including its CEO can be the Executive Directors.

2. The banks/DFIs during a calendar year may pay a reasonable and appropriate remuneration for attending the Board or its committee(s) meeting(s), to their non-executive directors and chairman. The scale of remuneration to be paid to the non-executive directors and chairman for attending the Board and/or committee meetings shall be approved by the shareholders on a pre or post facto basis in the Annual General Meeting (AGM). However, no such remuneration shall be paid to the executive directors except usual TA/DA as per bank's/DFI's standard rules and regulations. No consultancy or allied work will be awarded to the directors or to the firms/institutions/companies etc. in which they hold substantial interest. Further, the administrative expenses pertaining to the office, staff and security allocated to the Chairman of the Board should be determined rationally.¹

3. Chairman of the Board of Directors may, if deemed necessary, appoint one advisor to advise and facilitate him in discharge of his duties/responsibilities. The appointment of such an advisor will be subject to the following conditions:

- a) The advisor must possess the required technical experience relating to banking and finance at a senior level to enable him /her to render a professional advice to the Board.
- b) The terms of reference of the advisor shall be approved by the Board.
- c) A reasonable remuneration may be paid to the advisor with the approval of the Board of Directors.
- d) The advisor may attend the meetings of Board of Directors and Board Committees in which his/her participation is required but he/she will not be a member of the Board and/or its committees.
- e) The advisor shall be required to sign an appropriate confidentiality agreement to ensure confidentiality of documents/information that may come to his/her knowledge, before assuming any such role.²

D. COMPLIANCE OFFICER:

Banks/DFIs shall put in place a Compliance Program to ensure that all relevant laws are complied with, in letter and spirit, and, thus, minimize legal and regulatory risks. For this purpose, the Board of Directors, or Country Manager in case of foreign banks, shall appoint/designate a suitably qualified and experienced person as Compliance Officer on a countrywide basis, who may be assisted by other Compliance Officers down the line. The Head of Compliance will report directly to the President/Chief Executive Officer of the bank/DFI. The Compliance Officers will primarily be responsible for banks/DFI's effective compliance relating to:

- (a) SBP Prudential Regulations.
- (b) Relevant provisions of existing laws and regulations.
- (c) Guidelines for KYC.
- (d) Anti money laundering laws and regulations.
- (e) Timely submission of accurate data/returns to regulator and other agencies.
- (f) Monitor and report suspicious transactions to President/Chief Executive Officer of the bank/DFI and other related agencies.

2. Banks/DFIs are, however, free to add other areas of compliance under the responsibilities of Compliance Officer and consider setting up a compliance committee under him, as they deem fit to protect the interest of the institution.

3. The Compliance Officers will (i) serve as a contact point between President/Chief Executive Officer and senior management, with regard to functioning of the compliance program (ii) provide assistance in this area to branches and other departments of the bank/DFI, and (iii) act as liaison with State Bank of Pakistan concerning the issues related to compliance.'

4. Banks/DFIs are, therefore, advised to put in place, in writing, a complete program of compliance down the line under the supervision of a Compliance Officer.

¹ Amended vide BPRD Circular No. 9 of 2015 dated May 06, 2015

² Amended vide BPRD Circular Letter No. 12 of 2009 dated April 24, 2009

E. FITNESS AND PROPRIETY OF KEY EXECUTIVES:

Banks/DFIs shall strictly follow the guidelines contained in the 'Fit and Proper Test' (FPT) during the course of appointment of key executives.

2. The banks/DFIs should also develop and implement appropriate screening procedures to ensure high standards and integrity at the time of hiring all employees, whether contractual or permanent.

3. In case it is found at subsequent stage/during the course of inspection that guidelines of FPT have not been followed or the incumbent is not a fit and proper person, strict punitive action will be taken under the relevant provisions of Banking Companies Ordinance 1962, in addition to directing the banks/DFIs to dispense with the services of concerned officer if recruited afresh; and in case of existing employee, the same to be transferred from the post immediately.

REGULATION G-2

DEALING WITH DIRECTORS, MAJOR SHARE-HOLDERS AND EMPLOYEES OF THE BANKS/DFIs

Banks/DFIs shall not enter into leasing, renting and sale/purchase of any kind with their directors, officers, employees or such persons who either individually or in concert with family members beneficially own 5% or more of the equity of the bank/DFI. This restriction does not apply in case of purchase of vehicles, laptops, mobile phone devices and iPads¹ by the paid directors, officers or employees of the banks/DFIs which remained in their own use, provided such sale is covered under the employees service rules duly approved by the Board of Directors of the banks/DFIs and is effected by the banks/DFIs at least at book value at the date of such transaction.

2. Banks/DFIs shall not:

a) take unsecured exposure on, or take exposure against the guarantee of:

- i) any of their directors;
- ii) any of the family members of any of their directors;
- iii) any firm or private company in which the bank/DFI or any of the persons referred to in (i) or (ii) are interested as director, proprietor or partner; or
- iv) any public limited company in which the bank/DFI or any of the persons as aforesaid are substantially interested; and
- v) their Chief Executive and shareholders holding 5% or more of the share capital of the bank/DFI, 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.

b) take any exposure on any of their directors or to individuals, firms or companies in which they or any of their directors, either directly in the borrowing entity or in any of its group companies, hold key management positions, or are interested as partner, director or guarantor, as the case may be, their Chief Executives and shareholders holding 5% or more of the share capital of the bank/DFI, 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 bank/DFI excluding the director concerned. The facilities to the persons mentioned above shall be extended at market terms and conditions and be dealt with at arm length basis.

REGULATION G-3

CONTRIBUTIONS AND DONATIONS FOR CHARITABLE, SOCIAL, EDUCATIONAL AND PUBLIC WELFARE PURPOSES

Banks/DFIs shall strictly observe the following rules in the matter of making any donation/contribution for charitable, social, educational or public welfare purposes:

- i) The total donations/contributions made by the bank/DFI during the year shall not exceed such amount as approved by their Board of Directors. It is expected that banks/DFIs making these

¹ Introduced vide BPRD Circular Letter No. 32 of 2013 dated December 17, 2013

- donations/contributions would have already met provisioning and capital adequacy requirements.
- ii) The banks/DFIs shall develop policy/guidelines duly approved by the Board of Directors for making donations/contributions.

2. All donations or contributions to be made during the year must be specifically approved by the Board of Directors on pre or post facto basis as convenient.

3. Banks/DFIs are further directed to expressly disclose in their annual audited financial statements the total donation/contribution made during the year along with 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 family members have 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.

REGULATION G-4 **CREDIT RATING**

With a view to safeguard the interest of prospective investors, depositors and creditors, it shall be mandatory for all banks/DFIs to have themselves credit rated by a credit rating agency on the approved panel of the State Bank of Pakistan.

2. Foreign banks which are credit rated by M/s. Standard & Poor, Moody's Fitch-Ibca and Japan Credit Rating Agency (JCRA) are given a minimum rating of A3/A- and above shall be exempt from the application of this requirement. All other foreign banks have to go through credit rating process in Pakistan.

3. The credit rating will be an ongoing process i.e. credit rating should be updated on a continuous basis from year to year, within six months from the date of close of each financial year and the rating report complete in all respects be submitted to the State Bank of Pakistan and made public within a period of seven days of the notification of rating by the credit rating agency. Further, the banks/DFIs will disclose their credit rating prominently in their published annual and quarterly financial statements.

REGULATION O-1 **UNDERTAKING OF CASH PAYMENTS OUTSIDE THE BANK'S AUTHORIZED PLACE OF BUSINESS**

Banks shall not undertake any business of cash payments, other than the authorized place of business, except through the installation of Automated Teller Machine (ATM). Banks desirous of providing the facility of withdrawal through Authorized Merchant Establishments at various Points of Sale (POS) may do so upto a maximum cash limit of Rs 10,000/- For this purpose, adequate and suitable security measures should be put in place for cash feeding and safety of the Automated Teller Machines.

2. Branchless banking receipts/payments are allowed in accordance with branchless banking regulations.

3. Banks may do collection and payment of cash for their prime customers through cash carrying companies registered with concerned Government department. This facility should, however, be provided through designated branches of the banks and after the banks have devised procedures including necessary security measures.

REGULATION O-2 **WINDOW DRESSING**

Banks/DFIs shall refrain from adopting any measures or practices whereby they would either artificially or temporarily show an ostensibly different position of bank's/DFI's accounts as given in their financial statements. Particular care shall be taken in showing their deposits, MCR, non-performing loans/assets, provisioning, profit, inter-branch and inter-bank accounts, or any other method to artificially inflate balance sheet or show improved profitability.

REGULATION O-3
RECONCILIATION OF INTER-BRANCH ACCOUNTS
AND SETTLEMENT OF SUSPENSE ACCOUNT ENTRIES

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 the entry is made in the above-named accounts.

2. Entries made on account of tax at source, advance tax paid, tax recoverable, advance expense on new branches, advance rent paid, legal expenses, mark-up/service charge recoverable, Qarze Hasna for marriage, and forward cover fee, shall not be classified as Suspense Account and may be recorded in their respective head of account under other assets and the above instructions shall not be applicable to these items. Further, outstanding amount of the premium on Crop Loan Insurance Scheme (CLIS) receivable from Government of Pakistan (GoP) shall also be classified in other assets. The outstanding amount shall, however, be reconciled/cleared immediately on reimbursement of premium amount from the GoP. 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/DFIs 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.

REGULATION O-4
MAINTENANCE OF ASSETS IN PAKISTAN

Every bank/DFI 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/DFI 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.

REGULATION O-5
FOREIGN CURRENCY DEPOSITS UNDER FE 25-1998

Banks shall not invest FE 25 deposits in foreign currency/local currency denominated instruments below investment grade. Neither, shall they invest/place such deposits in fund management schemes of other banks/DFIs/NBFCs whether in Pakistan or abroad.

2. Banks shall be required to maintain the prescribed ratio of Cash Reserve/Special 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 be subject to the following conditions:

a) The investing bank shall comply with Regulation R-1 (Annexure-1 Para G), which mentions different weightages according to credit ratings of financial institutions.

b) The investing bank will not place in a single institution an amount exceeding 25% of the total investable funds, available with the investing bank, under the FE-25 Deposit Scheme.

The conditions above shall, however, not be applicable to placement of funds by the bank with its own branches overseas. Furthermore, compliance with all other relevant Prudential Regulations shall also be ensured.

4. Banks shall be free to decide the rate of return on deposits mobilized under FE-25.

5. Banks shall be free to use such deposits for their trade-related activities provided the exchange risks are adequately covered and a square position is maintained.

6. 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. Banks/DFIs may also exclude FE-25 Deposits in the form of the Foreign Direct Investment and funds received for social and economic uplift through international donor agencies/welfare organizations from the calculation of above limit of 20%. This will, however, be subject to the condition that the banks/DFIs will obtain an undertaking from the Account Holder that such funds are remitted from abroad and would be used for poverty alleviation and socio-economic uplift. The genuineness of all such exclusions will be verified by the SBP Inspectors during the subsequent inspections.

7. Banks will report the amount of FE 25 deposits and their utilization in the Weekly Statement of Position through reporting chart of account DWH Portal as required by the SBP.

**GUIDELINES REGARDING LIMIT ON EXPOSURE
TO A SINGLE OBLIGOR UNDER REGULATION R-1**

1. In arriving at exposure under Regulation R-1:
 - A) 100% of the deposits placed with lending bank/DFI, under perfected lien and in the same currency, as that of the loan, shall be deducted.
 - B) 90% of the following shall be deducted;
 - i) deposits placed with the lending bank/DFI, under perfected lien, in a currency other than that of the loan;
 - ii) deposits with another bank/DFI under perfected lien;
 - iii) encashment value of Federal Investment Bonds, Pakistan Investment Bonds, Treasury Bills and National Saving Scheme securities, lodged by the borrower as collateral; and
 - iv) Pak. Rupee equivalent of face value of Special US Dollar Bonds converted at inter-bank rate, lodged by the borrower as collateral.
 - C) 85% of the unconditional financial guarantees accepted as collateral and payable on demand by banks/DFIs, rated at least 'A' or equivalent by a recognized rating agency) shall be deducted. Similar weightage to guarantees issued by the International Finance Corporation (IFC), Commonwealth Development Corporation (CDC) Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG), Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V (FMO) and Asian Development Bank (ADB) shall also apply.
 - D) 50% of listed Term Finance Certificates held as security with duly marked lien shall be deducted. The TFCs to qualify for this purpose should have been rated at least 'A' or equivalent by a credit rating agency on the approved panel of State Bank of Pakistan.
 - E) Weightage of 10% shall be given to pre-shipment/post-shipment credit provided to finance exports of goods covered by letter of credit/firm contracts including financing provided from the bank's /DFI's own sources.
 - F) Weightage of 50% shall be given to;
 - i) documentary credits (except Standby Letter of Credits where 100% exposure would be counted) opened by banks/DFIs;
 - ii) guarantees/bonds other than financial guarantees;
 - iii) underwriting commitments.
 - G) The following different weightages will be applicable to exposure taken against commercial banks/DFIs in respect of placements;
 - i) 25% weightage on exposure to banks/DFIs with 'AAA' rating.
 - ii) 50% weightage on exposure to banks/DFIs rated 'A' and AA.
 - iii) 100% weightage on exposure to banks /DFIs rated below 'A'.

The banks/DFIs shall ensure that the overall limit for each financial institution in respect of inter-bank placements is invariably approved by their Board of Directors.
2. For the purpose of the Regulation R-1, exposure shall not include the following:
 - a.) Loans and advances (including bills purchased and discounted) given to the Federal Government or any of their agencies under the commodity operations program of the Federal Government, or guaranteed by the Federal Government.
 - b.) Obligations under letters of credit and letters of guarantee to the extent of cash margin held by the bank/DFI.

c.) Letters of credit, which do not create any obligation on the part of the bank/DFI (no liability L/C) to make payments on account of imports.

d.) Letters of credit opened on behalf of Federal Government where payment is guaranteed by State Bank of Pakistan/Federal Government.

e.) Facilities provided to commercial banks/DFIs through REPO transactions with underlying SLR eligible securities.

f.) Letters of credit established for the import of plant and machinery subject to the condition that financial close has been done in case of such LCs.

g.) Bills discounted/purchased from the borrower, drawn against the L/Cs of banks/DFIs meeting the following criteria.

Sr. No.	Maturity of the bill(s) discounted/purchased	Aggregate amount of bill(s) purchased/ discounted on account of one person	Minimum rating of the L/C issuing and accepting banks/DFIs assigned by Recognized Rating Agencies
a)	Short term (not more than 1 year)	Up to US\$ 250,000	No restriction
b)	Short term (not more than 1 year)	More than US\$ 250,000	At least "BBB" and above
c)	Long term (more than 1 year)	-Any-	At least "A" and above

3. For the purpose of Regulation R-1, net open exposure shall be used in the calculation on account of derivative transactions as allowed under Financial Derivatives Business Regulations issued vide BSD Circular No. 17 dated November 26, 2004.

For the purpose of Regulation R-1, reserve shall also include revaluation reserves on account of fixed assets of the bank/DFI to the extent of 50% of their value. However, for this purpose assets must be prudently valued by valuers on the panel of Pakistan Bank Association (PBA), fully taking into account the possibility of price fluctuations and forced sale value. Revaluation reserves reflecting the difference between the book value and the market value will be eligible up to 50%.

BORROWER'S BASIC FACT SHEET- FOR CORPORATE

PRESCRIBED UNDER REGULATION R-3

Date of Request. _____

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

BORROWER'S PROFILE:

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

2. NATURE OF BUSINESS:

Industrial	Commercial	Agricultural	Services	Any other

3. DETAILS OF DIRECTORS/OWNERS/PARTNERS:

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

4. CORPORATE STATUS:

Sole Proprietorship	Partnership	Public/Private Limited Company

5. MANAGEMENT:

A) EXECUTIVE DIRECTORS/PARTNERS:			
Name	Address	CNIC #	Phone #
1.			
2.			
B) NON-EXECUTIVE DIRECTORS/PARTNERS:			
Name	Address	CNIC #	Phone #
1.			
2.			

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 AVOIDED DURING THE LAST THREE YEARS:

Name of Financial Institution	Amount during 1 st Year		Amount during 2 nd Year		Amount during 3 rd Year	
	Write-off	Rescheduled/Restructured	Write-off	Rescheduled/Restructured	Write-off	Rescheduled/Restructured

10. DETAILS OF CLEAN FACILITIES CURRENTLY AVAILED:

Name of Financial Institution	Nature of Facility	Total Limit	Amount Outstanding
1.			
2.			

11. 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.				

12. DETAILS OF SECONDARY COLLATERAL 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.				

13. CREDIT RATING (WHERE APPLICABLE):

Name of Rating Agency	Rating

14. DETAILS OF ASSOCIATED CONCERNS (AS DEFINED IN COMPANIES ORDINANCE, 1984):

Name of Concern	Name of Directors	Share-holding	% of Total Share Capital

15. FACILITIES TO ASSOCIATED CONCERNS BY THE CONCERNED FI:

Name of Concern	Nature & Amount of Limit	Outstanding as on-----	Nature & Value of Securities	Overdues	Defaults

16. 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

17. DIVIDEND DECLARED (AMOUNT) DURING THE LAST THREE YEARS:

During 1 st Year	During 2 nd Year	During 3 rd Year

18. 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	

19. 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

20. DETAILS OF ALL OVERDUES (IF OVER 90 DAYS):

Name of Financial Institution	Amount

21. Details of payment schedule if term loan sought.

22. Latest Audited Financial Statements as per requirements of Regulation R-3 to be submitted with the LAF (Loan Application Form).

23. Memorandum and Articles of Association, By-laws etc. to be submitted by the borrower along with the request.

24. I/We do hereby authorise the bank/DFI to share information about my pledged stock with other banks/DFIs to monitor the position as per SBP Prudential Regulations.

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/DFI OFFICIAL)

CRITERIA FOR PREFERENCE SHARES FOR INCLUSION IN INVESTMENT IN EQUITIES

- a) Redemption of such preference shares is at the option of the issuer.
- b) In case the issuer has an option to redeem the preference shares, as per agreed terms and conditions, the redemption will be made through a sinking fund created out of the profits of the company.
- c) The terms and conditions of such shares does not give rise to a contractual obligation on the part of the issuer to deliver another financial asset or exchange another financial instrument under conditions that are or can be potentially unfavorable to the issuer. However, an option to convert preference shares into common shares can be the feature of the preference shares.
- d) The terms and conditions of the preference shares are not such as to compel the issuer economically, financially or otherwise to redeem the shares.
- e) Payment and distribution of dividend to the holders of preferred shares, whether cumulative or non-cumulative, is at the discretion of the issuer.

CASES ELIGIBLE FOR RELAXATION UNDER REGULATION R-7

The following cases will be eligible for relaxation under regulation R-7:

1. For bid bonds issued on behalf of local consultancy firms/ contractors of goods and services bidding for international contracts/Tenders where the consultancy fees and other payments are to be received in foreign exchange.
2. For issue of performance bonds on behalf of local construction companies/ contractors of goods and services bidding for international tenders. Provided that the liability of the bank/DFI will be on reducing balance basis after taking into account progressive billing certified by the beneficiary/project owner and payment received against these bills.
3. For issue of guarantees on behalf of local construction companies/ contractors of goods and services bidding for international tenders in respect of mobilization advance.
 - a) Guarantees issued should contain clause that the mobilization advance and other proceeds under the contract shall be routed by the beneficiary/project owner through the account of the contractors maintained with the guaranteeing bank/DFI.
 - b) At the time of issuing such guarantee the construction company/contractor shall sign an agreement with the bank/DFI that cash proceeds out of mobilization advance will be released as per satisfaction of the bank/DFI about the progress of the contract.
4. While issuing guarantees to the exporters of cotton in terms of F.E. Circular No.77 dated December 4, 1988, banks/DFIs may settle the type and quantum of security with their customers.
5. Issue of performance bonds/bid bonds and guarantees issued for mobilization advances on behalf of the manufacturers of engineering goods. The term 'engineering goods' shall have the same meanings as are given to locally manufactured machinery in State Bank of Pakistan scheme for financing locally manufactured machinery. Such condition may, however, not be necessary in case of guarantees issued by the International Banks.

ANNEXURE-V

**GUIDELINES IN THE MATTER OF CLASSIFICATION
AND PROVISIONING FOR ASSETS (REGULATION R-8)**

All Financing Facilities (including Short, Medium and Long Term)

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
1. Substandard.	Where mark-up/ interest or principal is overdue by 90 days or more from the due date.	Unrealized mark-up /interest to be kept in Memorandum Account and not to be credited to Income Account except when realized in cash. Unrealized mark up/interest already taken to income account to be reversed and kept in Memorandum Account.	Provision of 25% 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 (FSV) of pledged stocks, plant & machinery under charge, and mortgaged residential, commercial & industrial properties (land & building only) to the extent allowed in Para 2 of the Regulation R-8 (see Note 2 below)
2. Doubtful.	Where mark-up/ interest or principal is overdue by 180 days 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 FSV of pledged stocks, plant & machinery under charge, and mortgaged residential, commercial & industrial properties (land & building only) to the extent allowed in Para 2 of the Regulation R-8 (see Note 2 below).
3. Loss.	(a) Where mark-up/ interest or principal is overdue by one year 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 FSV of pledged stocks, plant & machinery under charge, and mortgaged residential, commercial & industrial properties (land & building only) to the extent allowed in Para 2 of the Regulation R-8 (see Note 2 below).
	(b) Where Trade Bills (Import/Export or Inland Bills) are not paid/adjusted within 180 days	As above.	As above.

of the due date.

Notes :

- 1) *Classified loans/advances that have been guaranteed by the Government would not require provisioning, however, mark up/interest on such accounts to be taken to Memorandum Account instead of Income Account.*
 - 2) *FSV shall be determined in accordance with the guidelines contained in Annexure-VI to these Regulations.*
-

Uniform Criteria for Determining the Value of Pledged Stock, Plant & Machinery under Charge and Mortgaged Properties (Prudential Regulation R-8)

Only liquid assets, pledged stock, plant & machinery under charge, and property having registered or equitable mortgage shall be considered for taking benefit for provisioning, provided no NOC for creating further charge to another bank / DFI / NBFC has been issued by the bank/DFI. The aforesaid assets having pari-passu charge shall be considered on proportionate basis of outstanding amount.

2. Hypothecated assets, excluding plant & machinery under charge, shall not be considered for taking the FSV benefit for provisioning requirement. Similarly, all assets with second charge and floating charge shall not be considered for taking the FSV benefit for provisioning requirement.

3. Valuations shall be carried out by an independent professional evaluator who should be listed on the panel of evaluators maintained by the Pakistan Banks Association (PBA). The evaluator while assigning any values to the pledged stock, plant & machinery under charge, and mortgaged property, shall take into account all relevant factors affecting the salability of such assets including any difficulty in obtaining their possession, their location & condition, and the prevailing economic conditions in the relevant sector, business or industry. The values of pledged stock, plant & machinery under charge, and mortgaged property so determined by the evaluators must represent a reasonably good estimate of the amount that could currently be obtained by selling such assets in a forced / distressed sale condition. The evaluators should also mention in their report the assumptions made, the calculations / formulae / basis used and the method adopted in determination of the values i.e. the Market Value and Forced Sale Value (FSV).

4. The valuation process will include conducting a “Full-scope Valuation” of the assets in the first year and then followed by “Desktop Valuations” in the second and third year. Full-scope Valuation shall be valid for three years from the date of last Full-scope Valuation.

5. The following may be noted in respect of the Desktop and Full-scope Valuations:

Desktop Valuation is defined as “an Interim Brief Review of Full-scope Valuation, so that any significant change in the factors, on which the Full-scope Valuation was based, is accounted for and brought to the notice of the lending bank/DFI”.

In case the loan amount exceeds Rs 100 million, the Desktop Valuation will be done by the same evaluator, who had conducted the Full-scope Valuation (the evaluator should be on the panel of the PBA) whereas for loans below this threshold, the Desktop Valuation may be done by the banks/DFIs themselves or by the approved evaluators. For conducting Desktop Valuation, the evaluator will pay a short visit to the borrower’s site. The bank’s/DFI’s responsibility in this respect will be to ensure that the evaluator is contacted for conducting Desktop Valuation and is provided all necessary information which is materially important for the interim review.

The Desktop Valuation shall be used for determining any additional provisioning requirement only and will not be applied for reducing the provisioning requirement assessed on the basis of Full-scope Valuation.

In cases where the evaluators are not allowed by the borrowers to enter in their premises, the Full-scope Valuation, conducted as such, will not be accepted for provisioning benefit.

6. State Bank of Pakistan may check the valuations of the assets under mortgage/charge, through an independent evaluator, on random basis, to verify the reasonableness of the valuations. The unjustified differences in the valuations of banks/DFIs and State Bank of Pakistan shall render the concerned bank/DFI and evaluator to penal actions including, inter alia, withdrawal of FSV benefit.

7. Various categories of assets to be considered for valuation would be as under (no other assets shall be taken into consideration):

a) Liquid Assets:

Valuation of Liquid Assets shall be determined by the bank / DFI 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. Moreover, valuation of shares pledged against loans/advances shall be considered only if such shares are in dematerialized form in the Central Depository Company of Pakistan (CDC), otherwise these will not be admissible for deduction as liquid assets while determining required provisions.

b) Mortgaged Property and Plant & Machinery under Charge:

Valuation of residential, commercial & industrial property (land and building only) and plant & machinery would be accepted as determined by evaluators in accordance with the criteria given above.

c) Pledged Stocks:

In case of pledged stocks of perishable and non-perishable goods, forced sale value should be provided by evaluators, and such valuation should not be more than six months old, at each balance sheet date. The goods should be perfectly pledged, the operation of the godown(s) or warehouse(s) should be in the control of the bank/DFI and regular valid insurance and other documents should be available. In case of perishable goods, the evaluator should also give the approximate date of complete erosion of value.

CORPORATE GOVERNANCE ANNEXURES

ANNEXURE A

ASSESSMENT OF FITNESS AND PROPRIETY

1. INTEGRITY, HONESTY AND REPUTATION

- i) Has not been convicted/involved in any fraud/forgery, financial crime etc, in Pakistan or elsewhere, or is not being subject to any pending proceedings leading to such a conviction.
- ii) Has not been subject to any adverse findings or any settlement in civil/criminal proceedings particularly with regard to investments, financial matters/business, misconduct, fraud, formation or management of a corporate body etc by SBP, other regulatory authorities (within or outside Pakistan), professional bodies or government bodies/agencies.
- iii) Has not contravened any of the requirements and standards of SBP or the equivalent standards/requirements of other regulatory authorities (outside Pakistan as well), professional bodies or government bodies/agencies.
- iv) Has not been involved with (management or conduct of the affairs of) a company/firm or any other organization that has been refused registration/licence to carry out trade, business etc.
- v) Has not been involved with (management or conduct of the affairs of) a company/firm whose registration/licence has been revoked or cancelled or gone into liquidation or other similar proceedings due to mismanagement of affairs, financial misconduct or mal practices.
- vi) Has not been debarred for being Chief Executive, Chairman, Director, Controlling Shareholder/Sponsor or Key Executive of a company/firm or in similar capacity.

2. TRACK RECORD

- i) The person must have an impeccable track record in the companies served either in the capacity of an employee or director/Chief Executive or as Chairman.
- ii) Has not been demoted, dismissed or forced to resign from employment by the bank/DFI, or has not been removed by any regulator or government body, in the capacity of employee, director, chairman or key executive of the company/firm or any other position of trust.

3. SOLVENCY & FINANCIAL INTEGRITY

- i) Has not been associated with any illegal activity concerning banking business, deposit taking, financial dealing and other business.
- ii) Has not been in default of payment of dues owed to any financial institution and/ or default in payment of any taxes in individual capacity or as proprietary concern or any partnership firm or in any private unlisted/listed company.
- iii) Has not been associated as director and/or chief executive with the corporate bodies who have defaulted in payment of Government duties/taxes etc.
- iv) Has sufficient means to discharge his/her financial obligations, if any.

4. QUALIFICATION & EXPERIENCE

This section shall apply separately for Directors, CEO and Key Executives of Banks/DFIs as under: -

i. Directors on the Board

- a. Must have management/business experience of at least 5 years at senior level in an active capacity. In case of lawyers, 7 years experience is required, provided that they are not practicing/involved with or acting as legal counsel/adviser or on payroll of a bank where he is proposed to be appointed as director.
- b. Minimum qualification for a person to be appointed as Director on the Board of a bank/DFI is graduation. Higher education accomplished in the discipline of banking and finance may be an added qualification.

ii. Chief Executive Officer

- a. Must be a career banker having at least 5 years of experience at senior level as EVP and above or equivalent i.e. Group Head of Financial/Business Line in a bank and posses expertise and skill set to undertake responsibilities of the position effectively and prudently.
- b. Should be between 40 to 70 years of age.

- c. Should have minimum qualification of graduation or equivalent in the discipline of banking, finance, economics, business administration and related fields. CEO of the Islamic Bank should preferably be having experience/training in Islamic Banking.

iii. Key Executive

- a. Must be a qualified professional possessing relevant experience & degree relating to the job/assignment.

5. CONFLICT OF INTEREST

- i. The CEO is not a Chairman of the Board of Directors of the same bank/DFI .
- ii. The Directors on the Board should avoid conflict of interest in their activities with, and commitments to, other organizations.
- iii. Is not a director (including as a nominee director of the Government) of any other bank/DFI. However, this clause will not be applicable in case of Managing Director and other employees of National Investment Trust (NIT) nominated on the Board of banks/DFIs, till its privatization.
- iv. No person can become a Director of the bank/DFI, if he/she is :
 - a. Holding substantial interest or is working as Chairman, Director, Chief Executive, Chief Financial Officer, Chief Internal Auditor, Research Analyst or Trader (by whatever name/designation called) of a:
 - i. Exchange Company (firm or sole proprietorship)
 - ii. Member of a Stock Exchange
 - iii. Corporate Brokerage House
 - iv. Any company/entity owned and controlled by the person mentioned at (i) to (iii) above
 - b. Acting, either in personal capacity and/or through firm/company where he/she has substantial interest, as consultant /advisor to bank/DFI in which he/she intends to become a director.

6. OTHERS

- i. Not more than 25% directors of the same family are permitted to be on the Board of a bank/DFI.
- ii. Maximum two members of Board of Directors of a bank/DFI including its CEO can be the Executive Directors.

- iii. Directors should preferably be professionals from diversified field/industry. However, a minimum of 25% members of Board of Directors of a bank/DFI shall be Independent Directors.
- iv. No member of Senate, National/ Provincial Assembly, Local bodies shall be appointed/ recommended for appointment as Member of Board of Directors and/or Chief Executive Officer/Key Executive of any bank/DFI.
- v. No Key Executive shall head more than one functional area. Furthermore, he/she shall not hold directorship in his /her personal capacity: (a) in a business concern which is also a client of the bank/DFI, and (b) in any other financial institution.

PROFORMA - FIT & PROPER TEST

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Full Name

Father's Name

Date of Birth	Place of Birth (City and Country)
---------------	-----------------------------------

Nationality (ies)	NTN Number
-------------------	------------

C.N.I.C No.	N.I.C. No.(Old)
-------------	-----------------

Passport Number (for foreign national)
--

Present Residential Address in Full

Permanent Residential Address in Full

Residential Telephone Number (s)	Mobile Number
----------------------------------	---------------

If you have changed your name, state previous name and reason for change
--

Academic Education		
Qualification	Name & Address of Degree Awarding Institution	Date of Completion

Professional Education		
Qualification	Name & Address of Institution/ Professional Body	Date of Completion

Trainings if any

Cont'd...

Existing Employment	
Present Designation	Present Department
Official Address	
Telephone Number (s)	Email

Please provide complete and true particulars of all business (es), including proprietary concern/partnership firms, companies, in which you have been associated as a proprietor, partner or a director thereof during the last ten years and the accounts maintained by them:		
Name of Proprietary Concern/Partnership Firm/ Company	Name of bank and/or NBFIs Together with Name of Branches	Account Number (s)

Position held during the last ten years (along with name and address of company/institution/body where appointment held, nature of the company/institution/body and dates of appointment)

Position of the shares held in the bank	Number of shares held as of ____
As a Sponsor Shareholder <ul style="list-style-type: none"> • Own name • In name of your company • In name of your family member Other than Sponsor Shareholder <ul style="list-style-type: none"> • Own name • In name of your company • In name of your family member 	

(Signature of concerned official)

**Affidavit
(On Non-Judicial Stamp Paper)**

I, _____ son/daughter/wife of _____ adult, resident
of _____
and holding CNIC No. _____ do hereby state on solemn
affirmation as under:-

- a. that the deponent hereby confirm that the statement made and the information supplied in the attached questionnaire and the Annexure-I and the answers thereof are correct and that there are no other facts that are relevant for "Fit and Proper Test"
- b. that the deponent undertake that the State Bank of Pakistan may seek additional information from any third party it deems necessary in view of assessing "Fit and Proper Test"
- c. that the deponent undertake to bring to the attention of the State Bank of Pakistan any matter which may potentially affect my status as being someone fit and proper as and when it crops up; and
- d. that whatever is stated above is correct to the best of my knowledge and belief and nothing has been concealed therefrom.

DEPONENT

The Deponent is identified by me

Signature _____
ADVOCATE
(Name and Seal)

Solemnly affirmed before me on this _____ day of _____ at _____ by
the Deponent above named who is identified to me by _____, Advocate,
who is known to me personally.

Signature _____
OATH COMMISSIONER FOR TAKING AFFIDAVIT
(Name and Seal)

QUESTIONNAIRE FOR ACCESSING "FIT & PROPER TEST"

Please answer the following questions by entering a tick (✓) in the appropriate box. If answer of any of these questions in YES and need explanation, use a separate sheet with proper reference to the question.

		Yes	No
1.	Have you ever been convicted/involved in any fraud/forgery, financial crime etc, in Pakistan or elsewhere, or is being subject to any pending proceedings leading to any conviction?	<input type="checkbox"/>	<input type="checkbox"/>
2.	Have you ever been associated with any illegal activity concerning banking business, deposit taking, financial dealing and other business	<input type="checkbox"/>	<input type="checkbox"/>
3.	Have you ever been subject to any adverse findings or any settlement in civil/criminal proceedings particularly with regard to investments, financial/business, misconduct, fraud, formation or management of a corporate body etc by SBP, other regulators, professional bodies or government bodies/agencies?	<input type="checkbox"/>	<input type="checkbox"/>
4.	Have you ever contravened any of the requirements and standards of regulatory system or the equivalent standards or requirements of other regulatory authorities?	<input type="checkbox"/>	<input type="checkbox"/>
5.	Have you ever been involved with a company or firm or other organization that has been refused registration/licence to carry out trade, business etc?	<input type="checkbox"/>	<input type="checkbox"/>
6.	Have you ever been involved with a company/firm whose registration/licence has been revoked or cancelled or gone into liquidation or other similar proceedings?	<input type="checkbox"/>	<input type="checkbox"/>
7.	Have you ever been debarred for being Chief Executive, Chairman, Director or Sponsor/Strategic Investor of a company, especially financial institutions?	<input type="checkbox"/>	<input type="checkbox"/>
8.	Have you ever been dismissed/ asked to resign/resigned in Pakistan or elsewhere in order to avoid legal or disciplinary action?	<input type="checkbox"/>	<input type="checkbox"/>
9.	Have you ever resigned from a professional or regulatory body in Pakistan or elsewhere in order to avoid legal or disciplinary action?	<input type="checkbox"/>	<input type="checkbox"/>
10.	Have you ever been disqualified/ removed by regulators/Government bodies/ agencies?	<input type="checkbox"/>	<input type="checkbox"/>
11.	Have you ever been in default of payment of dues owed to any financial institution in individual capacity or as proprietary concern or any partnership firm or in any private unlisted/listed company?	<input type="checkbox"/>	<input type="checkbox"/>
12.	Have you ever been in default of taxes in individual capacity or as proprietary concern or any partnership firm or in any private listed/unlisted company?	<input type="checkbox"/>	<input type="checkbox"/>
13.	Have you ever been associated as director and/or chief executive with the corporate bodies whose corporate and tax record, including custom duties, central excise and sales tax has been unsatisfactory?	<input type="checkbox"/>	<input type="checkbox"/>

cont'd...

- | | | Yes | No |
|-----|--|--------------------------|--------------------------|
| 14. | Have you entered into any agreement with any other person (natural or legal) which will influence the way in which you exercise your voting rights or the way in which you otherwise behave in your relationship with the authorized entity? | <input type="checkbox"/> | <input type="checkbox"/> |
| 15. | Are you a director on the Board of Directors of any other Financial Institution(s)? | <input type="checkbox"/> | <input type="checkbox"/> |
| 16. | Are you a Chairman, Chief Executive, Chief Financial Officer, Chief Internal Auditor, Research Analyst or Trader (by whatever name/designation called) of a Exchange Company (firm or sole proprietorship), member of a Stock Exchange, Corporate Brokerage House? | <input type="checkbox"/> | <input type="checkbox"/> |
| 17. | Are you owing/controlling any Exchange Company or Corporate Entity? | <input type="checkbox"/> | <input type="checkbox"/> |
| 18. | Have you been or are you working as consultant or adviser of bank/DFI in which you intend to become a director? | <input type="checkbox"/> | <input type="checkbox"/> |
| 19. | Are you employee of the Bank/DFI? | <input type="checkbox"/> | <input type="checkbox"/> |
| 20. | Are you employee of a company/entity/organization where sponsor shareholders of bank/DFI have substantial interest | <input type="checkbox"/> | <input type="checkbox"/> |
| 21. | Are you a member/office bearer of any political party or member of Senate/National/Provincial Assembly/Local Body? | <input type="checkbox"/> | <input type="checkbox"/> |
| 22. | If independent director, have you enclosed declaration in this behalf? | <input type="checkbox"/> | <input type="checkbox"/> |
| 23. | Any other information that is relevant for the purpose of SBP and needs to be mentioned? | <input type="checkbox"/> | <input type="checkbox"/> |

Signature _____

Name _____

Position _____

Date _____

PROFORMA - FITNESS & PROPRIETARY OF KEY EXECUTIVES

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Position and Grade held by the Executive		
Date of assumption of current position (dd/mm/yyyy)		
Full Name		
Father's Name		
Date of Birth	Place of Birth (City and Country)	
Nationality (ies)	NTN Number	
C.N.I.C No.	N.I.C. No.(Old)	
Telephone Number (s)	Mobile number	
Academic Education		
Qualification	Name & Address of Degree Awarding Institution	Date of Completion
Professional Education		
Qualification	Name & Address of Degree Awarding Institution	Date of Completion
Trainings if any		
Previous Employment (s) (date-wise)		
Designation	Department	
Official Address		
Telephone Number (s)		
Has ever been convicted of any offence	Yes	No
If yes, nature of offence and penalty imposed		
Has ever been censured or penalized by any financial regulator (local or foreign)?	Yes	No
If yes, reasons for adverse findings and amount of penalty imposed (if any)		
Have you ever been dismissed from employment	Yes	No
If yes, name of the employer and reason for dismissal		

(Signature of the concerned official)

(Signature and Stamp of Employer)

DECLARATION BY THE PROPOSING BANK/DFI

(To be signed either by the President/Chief Executive Officer, Head of Human Resources or the Company Secretary of the incorporated Bank/DFI)

I, _____ on behalf of _____ (*name of proposing Bank/DFI*) ("the proposing Bank/DFI") submit the FPT Proforma in respect of Mr./Ms. _____ for the proposed position of _____ and declare that:

- (i) To the best of my knowledge, information and belief, the information that is being submitted to SBP is true, accurate and supports my view that this person fulfils all the criteria for the post for which he/she is proposed.

- (ii) Select (✓) as appropriate:
 - a) The Bank/DFI has satisfied itself that the proposed person meets the requirements of all the applicable laws, rules and regulations including Companies Ordinance, 1984, Banking Companies Ordinance, 1962, Banks Nationalization Act, 1974 (if applicable) and FPT Criteria and is, in the opinion of the Bank/DFI, capable of fulfilling the assigned role.

OR

- The Bank/DFI acknowledges that the proposed person needs an exemption from some provision(s) of the applicable laws, rules and regulations, details of which are given in the attached letter along with justifications thereof.

- b) The bank/DFI has obtained copies of educational degrees/certificates and verified the same from relevant institutions/universities or obtained certified copies of verification from previous employer directly.

OR

- The bank/DFI undertakes to confirm to the SBP within a period of four (4) months hereof that educational degrees/certificates shall be got verified by them and status of the same shall be communicated to SBP accordingly.

- c) The bank/DFI has obtained satisfactory confidential reports from the former employer(s).

Signature & Stamp of Bank/DFI's Official: _____

OR

The bank/DFI undertakes to obtain confidential reports from the former employer(s) within a period of three (3) months hereof and status of the same shall be communicated to SBP accordingly.

(iii) I am aware that it may be:

- a. an offence and/or
- b. grounds for refusal of this application and/or
- c. grounds for revocation of an authorization granted on the basis of this application and/or
- d. grounds for SBP to commence an administrative sanctions procedure against both myself and/or the Bank/DFI

if the undersigned and/or the Bank/DFI knowingly or recklessly

- provide false or misleading information and/or to make a false or misleading statement (which, I acknowledge, may include the withholding by me and/or the Bank/DFI of relevant information) in this application for authorization
- fail to inform and/or withhold from the SBP details of any change in circumstances/new information which is relevant and/or material to the status of the proposed person anytime from now on.
- fail to inform to SBP immediately any legal and/or contractual infirmity resulting from behavior, conduct or incapacity in whatever form any time from now on which could potentially debar the person from holding the position.

Dated this _____ *day of* _____

Name: _____ *Signature:* _____

Position/Designation: _____

For and on behalf of (name of Bank/DFI): _____

**Procedure for deposit of sponsor shares into
a blocked account with CDC**

Following procedure shall be followed by banks for deposit / transfer of sponsor shares into CDC account:

1. The existing sponsor shareholders who have already deposited their shares with SBP BSC shall :
 - a)** Open account (sub-participant account or investor account) at CDC exclusively for depositing sponsor shares and subsequent bonus and right shares.
 - b)** Confirm the account number to SBP through company secretary of the bank.
 - c)** On receipt of above confirmation, SBP will allow the withdrawal of shares deposited with SBP BSC for deposit with CDC.
 - d)** The bank shall confirm the deposit of sponsor shares in the CDC account within 15 days of release of shares by SBP.

2. The prospective sponsor shareholders shall open CDC account (sub- participant account or investor account) and confirm the account number to SBP through Company Secretary of the bank at least 15 days prior to issuance/transfer of shares. Further, they shall arrange for confirmation of submission of shares in CDC account within 3 days of issuance of shares.

3. For those sponsor shareholders who are yet to deposit their sponsor shares in a blocked account with CDC, shall either open a new account or identify an existing account and confirm the same through Company Secretary of the bank to SBP by 31st May, 2008 along with schedule for transfer of sponsor shares in the account by 31st July, 2008.
