



# **PRUDENTIAL REGULATIONS FOR CORPORATE / COMMERCIAL BANKING**

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**BANKING POLICY DEPARTMENT  
STATE BANK OF PAKISTAN**

**PRUDENTIAL REGULATIONS  
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## **P R E F A C E**

The existing Prudential Regulations for banks have been thoroughly reviewed in the light of changes & developments in the financial market and international best practices, with a view to provide greater flexibility and authority to the banks / DFIs. Accordingly, a new set of Prudential Regulations covering the areas of Corporate / Commercial Banking, i.e. other than SMEs Financing and Consumer Financing, for which State Bank of Pakistan is issuing separate Prudential Regulations, is being issued herewith. The Prudential Regulations for Corporate / Commercial Banking have been divided into four categories viz. Risk Management (R), Corporate Governance (G), KYC and Anti Money Laundering (M) and Operations (O). The separate Prudential Regulations for SMEs Financing and Consumer Financing shall only cover the Risk Management category (R). For the remaining three categories [i.e. Corporate Governance (G), Anti Money Laundering (M) and Operations (O)], the relevant sections contained in the accompanying Prudential Regulations for Corporate / Commercial Banking shall be applicable.

For the purpose of Prudential Regulations for SMEs Financing, SME means an entity, ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing / service concern) and 50 persons (if it is trading concern) and also fulfills the following criteria of either 'a' and 'c' or 'b' and 'c' as relevant:

- (a) A trading / service concern with total assets at cost excluding land and building upto Rs 50 million.
- (b) A manufacturing concern with total assets at cost excluding land and building upto Rs 100 million.
- (c) Any concern (trading, service or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements.

An Individual, if he or she meets the above criteria, can also be categorized as an SME.

For the purposes of Consumer Financing Prudential Regulations, Consumer Financing means any financing allowed to individuals for meeting their personal, family or household needs. The facilities categorized as Consumer Financing are given as under:

- (i) Credit Cards mean cards, which allow a customer to make payments on credit. Supplementary credit cards shall be considered part of the principal borrower for the purposes of these regulations. Corporate Card will not fall under this category and shall be regulated by Prudential Regulations for Corporate / Commercial Banking or Prudential Regulations for SMEs

Financing as the case may be. The regulations for credit cards shall also be applicable on charge cards, debit cards stored value cards and BTF (Balance Transfer Facility).

- (ii) Auto Loans mean the loans to purchase the vehicle for personal use.
- (iii) Housing Finance means loan provided to individuals for the purchase of residential house / apartment / land. The loans availed for the purpose of making improvements in house / apartment / land shall also fall under this category.
- (iv) Personal loans mean the loans to individuals for the payment of goods, services and expenses and include Running Finance / Revolving Credit to individuals.

It may be noted that any financing facility, other than SMEs Financing and Consumer Financing as stipulated above, shall be governed by the Prudential Regulations for Corporate / Commercial Banking. However, in case of international operations, the Prudential Regulations of host country shall prevail.

The Prudential Regulations for Corporate / Commercial Banking do not supercede other directives issued by State Bank of Pakistan in respect of areas not covered here. Any violation or circumvention of these regulations shall render the bank / DFI / officer(s) concerned liable for penalties under the Banking Companies Ordinance, 1962.

With the improvement in Corporate Governance standards and employment of better risk management techniques, systems and internal controls by the banking sector, it is anticipated that present regulatory regime by way of Prudential Regulations will gradually recede and risk management policy guidelines issued by State Bank of Pakistan will replace them, as per announcements from State Bank of Pakistan, to be issued from time to time.

**MUHAMMAD KAMRAN SHEHZAD**  
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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 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. **Bank** means a banking company as defined in the Banking Companies Ordinance, 1962.
3. **Borrower** means a person on whom a bank / DFI has taken any exposure during the course of business.
4. **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.
5. **Corporate Card** means credit card issued to the employees of an entity where the repayment is to be made by the said entity.
6. **DFI** means Development Financial Institution and includes the Pakistan Industrial Credit and Investment Corporation (PICIC), the Saudi Pak Industrial and Agricultural Investment Company Limited, the Pak Kuwait Investment Company Limited, the Pak Libya Holding Company Limited, the Pak Oman Investment Company (Pvt.) Limited and any other financial institution notified under Section 3-A of the Banking Companies Ordinance, 1962.
7. **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.

8. **Equity of the Bank / DFI** means Tier-I Capital or Core Capital and includes paid-up capital, general reserves, balance in share premium account, reserve for issue of bonus shares 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 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%.

9. **Equity of the Borrower** includes paid-up capital, general reserves, balance in share premium account, reserve for issue of bonus shares and retained earnings / accumulated losses, revaluation reserves on account of fixed assets and subordinated loans.

The Preference Shares, only with the following features, will also be included in the equity of the borrower:

- ? There should not be any provision for redemption or the redemption should be at the option of the issuer.
- ? The terms and conditions should 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 unfavourable to the issuer.
- ? The terms and conditions of the preferred shares should not be such as to compel the issuer economically, financially or otherwise to redeem the shares.
- ? Payment and distribution of dividend to the holders of preferred shares, whether cumulative or non-cumulative, should be at the discretion of the issuer.

Revaluation reserves will remain part of the equity for first three years only, from the date of asset revaluation, during which time the borrower will strengthen its equity base to enable it to avail facilities without the benefit of revaluation reserves. However, if a borrower gets revaluation during the three years period, the borrower will be allowed the benefit from fresh revaluation, to the extent of increase in revaluation reserves, but restricting the benefit of such incremental value to 3 years only. Similarly, if after 3 years, the borrower again gets revaluation of the assets with resultant

addition in their value, the benefit of such revaluation may also be allowed for the next 3 years, again to the extent of increase in revaluation reserves.

The revaluation reserves to be eligible for benefit should be calculated by the valuers on the approved panel of the PBA. If the bank / DFI obtains copy of accounts as per requirement in Prudential Regulation R-3, then such revaluation reserves should appear in the said accounts, and in such case, no parallel calculation by the banks / DFIs for amortization purposes will be required. In case of no requirement of copy of accounts, the borrower may still be given the benefit of revaluation reserves in the way mentioned above, but the bank / DFI will calculate the amortization of the same independently.

10. **Exposure** means financing facilities whether fund based and / or non-fund based and include:
  - (i) Any form of financing facility extended or bills purchased/ discounted except ones drawn against the L/Cs of banks / DFIs rated at least 'A' by Standard & Poor, Moody's, and Fitch-Ibca or credit rating agency on the approved panel of State Bank of Pakistan and duly accepted by such L/C issuing banks / DFIs
  - (ii) Any financing facility extended or bills purchased/discounted on the guarantee of the person.
  - (iii) Subscription to or investment in shares, Participation Term Certificates, Term Finance Certificates or any other Commercial Paper by whatever name called (at book value) issued or guaranteed by the persons.
  - (iv) Credit facilities extended through corporate cards.
  - (v) Any financing obligation undertaken on behalf of the person under a letter of credit including a stand-by letter of credit, or similar instrument.
  - (vi) Loan repayment financial guarantees issued on behalf of the person.
  - (vii) Any obligations undertaken on behalf of the person under any other guarantees including underwriting commitments.
  - (viii) Acceptance/endorsements made on account.
  - (ix) Any other liability assumed on behalf of the client to advance funds pursuant to a contractual commitment.
11. **Financial Institutions** mean banks, Development Financial Institutions (DFIs) and NBFCs.
12. **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.

13. **Government Securities** shall include such types of Pak. Rupee obligations of the Federal 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.
14. **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 or have power to exercise significant influence over the other or are financially interdependent on each other. For the purpose of this:
- (a) **Subsidiary** will have the same meaning as defined in sub-section 3(2) 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 share holding of 10% (5% for banking companies / DFIs) by a person and / or by his dependent family members. However, shareholding in the Government owned entities will not constitute substantial ownership / affiliation for this purpose. Resultantly, neither the Government owned entities will be considered as group concern of a corporate group / company / individual holding 10% or more shareholding in these Government entities nor the shareholding in the Government entities will be construed to form any group.
  - (d) **Significant influence** refers to the management control of the company, to participate in financial and operating policies, either exercised by representation in the Board of Directors, partnership or by statute / agreement in the policy making process or affiliation or material inter-company transactions.
15. **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, should be 'A' and above or equivalent.

16. **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. Family members have the same meaning as defined in the Banking Companies Ordinance, 1962.
17. **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
18. **NBFC** means Non-Banking Finance Company and includes a Modaraba, Leasing Company, Housing Finance Company, Investment Bank, Discount House, Asset Management Company and a Venture Capital Company.
19. **Other Form of Security** means hypothecation of stock (inventory), assignment of receivables, lease rentals, contract receivables, etc.
20. **PBA** means Pakistan Banks Association.
21. **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.
22. **Readily Realizable Assets** mean and include liquid assets and stocks pledged to the banks / DFIs in possession, with 'perfected lien' duly supported with complete documentation.
23. **Secured** means exposure backed by tangible security and any other form of security with appropriate margins (in cases where margin has been prescribed by State Bank, appropriate margin shall at least be equal to the prescribed margin). Exposure without any security or collateral is defined as clean.
24. **Subordinated Loan** means an unsecured loan extended to the borrower by its sponsors, subordinate to the claim of the bank / DFI taking exposure on the borrower and documented by a formal sub-ordination agreement between provider of the loan and the bank / DFI. The loan shall be

disclosed in the annual audited financial statements of the borrower as subordinated loan.

25. **Tangible Security** means readily realizable assets (as defined in these Prudential Regulations), mortgage of land, plant, building, machinery and any other fixed assets.
26. **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).

**PART - B**  
**REGULATIONS**

**REGULATION R-1**  
**LIMIT ON EXPOSURE TO A SINGLE PERSON**

The total outstanding exposure (fund based and non-fund based) by a bank / DFI to any single person shall not at any point in time exceed 30% of the bank's / DFI's equity (as disclosed in the latest audited financial statements), subject to the condition that the maximum outstanding against fund based exposure does not exceed 20% of the bank's / DFI's equity.

2. The total outstanding exposure (fund based and non-fund based) by a bank / DFI to any group shall not exceed 50% of the bank's / DFI's equity (as disclosed in the latest audited financial statements), subject to the condition that the maximum outstanding against fund based exposure does not exceed 35% of the bank's / DFI's equity. For this purpose, the group will cover both corporate entities as well as SMEs, in cases where such entities are owned by the same group.

3. For the purpose of this regulation banks / DFIs are required to follow the guidelines given at Annexure-I.

**REGULATION R-2**  
**LIMIT ON EXPOSURE AGAINST CONTINGENT LIABILITIES**

Contingent liabilities of a bank / DFI shall not exceed at any point in time 10 times of its equity. Following shall not constitute contingent liabilities for the purpose of this regulation:

- (a) Bills for collection.
- (b) Obligations under Letters of Credit and Letters of Guarantee to the extent of cash margin retained by the bank / DFI.
- (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 credit rating agency on the approved panel of State Bank of Pakistan or Standard & Poors, Moody's or Fitch-Ibca.
- (d) Non-fund based exposure to the extent covered by liquid assets.
- (e) 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.

2. 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**  
**MINIMUM CONDITIONS FOR TAKING EXPOSURE**

While considering proposals for any exposure (including renewal, enhancement and rescheduling / restructuring) exceeding such limit as may be prescribed by State Bank of Pakistan from time to time (presently at Rs 500,000), banks / DFIs should give due weightage to the credit report relating to the borrower and his group obtained from Credit Information Bureau (CIB) of State Bank of Pakistan. However, banks / DFIs may take exposure on defaulters keeping in view their risk management policies and criteria, provided they properly record reasons and justifications in the approval form. The condition of obtaining CIB report will apply to exposure exceeding Rs 500,000/- after netting-off the liquid assets held as security.

2. Banks / DFIs shall, as a matter of rule, obtain a copy of financial statements duly audited by a practicing Chartered Accountant, relating to the business of every borrower who is a limited company or where the exposure of a bank / DFI exceeds Rs 10 million, for analysis and record. However, banks / DFIs may waive the requirement of obtaining copy of financial statements when the exposure net of liquid assets does not exceed the limit of Rs 10 million. Further, financial statements signed by the borrower will suffice where the exposure is fully secured by liquid assets.

3. Banks / DFIs shall not approve and / or provide any exposure (including renewal, enhancement and rescheduling / restructuring) until and unless the Loan Application Form (LAF) prescribed by the banks / DFIs is accompanied by a 'Borrower's Basic Fact Sheet' under the seal and signature of the borrower as per approved format of the State Bank of Pakistan (Annexure II-A for corporate borrowers and Annexure II-B for individual borrowers).

**REGULATION R-4**  
**LIMIT ON EXPOSURE AGAINST**  
**UNSECURED FINANCING FACILITIES**

Banks / DFIs shall not provide unsecured / clean financing facility in any form of a sum exceeding Rs 500,000/- (Rupees five hundred thousand only) to any one person. Financing facilities granted without securities including those granted against personal guarantees shall be deemed as 'clean' for the purpose of this regulation. Provided further that at the time of granting a clean facility, banks / DFIs shall obtain a written declaration to the effect that the borrower in his own name or in the name of his family members, has not availed of such facilities from other banks / DFIs so as to exceed the prescribed limit of Rs 500,000/- in aggregate.

2. For the purpose of this regulation, following shall be excluded / exempted from the per party limit of Rs 500,000/- on the clean facilities:

- (a) Facilities provided to finance the export of commodities eligible under Export Finance Scheme.
- (b) Financing covered by the guarantee of Pakistan Export Finance Guarantee Agency.
- (c) Loans / advances given to the employees of the banks / DFIs in accordance with their entitlement / staff loan policy.

3. 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. However, investment of banks / DFIs in subordinated, unsecured TFCs issued by other banks / DFIs to raise Tier-II Capital as per State Bank of Pakistan's instructions will not count towards the aggregate exposure limit on unsecured financing facilities.

**REGULATION R-5**  
**LINKAGE BETWEEN FINANCIAL INDICATORS OF**  
**THE BORROWER AND TOTAL EXPOSURE**  
**FROM FINANCIAL INSTITUTIONS**

While taking any exposure, banks / DFIs shall ensure that the total exposure (fund-based and / or non-fund based) availed by any borrower from financial institutions does not exceed 10 times of borrower's equity as disclosed in its financial statements (obtained in accordance with para 2 of Regulation R-3), subject to the condition that the fund based exposure does not exceed 4 times of its equity as disclosed in its financial statements. However, where the equity of a borrower is negative and the borrower has injected fresh equity during its current accounting year, it is eligible to obtain finance not exceeding 3 times of the fresh injected equity provided the borrower shall plough back at least 80% of the net profit each year until such time that it is able to borrow without this relaxation. In exceptional cases, banks / DFIs may allow seasonal financing to borrowers, for a maximum period of six months, not meeting the criteria of 4 times of fund based exposure and 10 times total exposure, subject to the condition that fund based exposure does not exceed 8 times and total exposure does not exceed 12 times of borrower's equity. In case of NBFCs, the total exposure (i.e. fund based and / or non-fund based) availed by any NBFC from financial institutions shall not exceed 10 times of its equity, without the restriction of fund based exposure to be 4 times as in case of other types of borrowers.

2. It is expected that at the time of allowing fresh exposure / enhancement / renewal, the current assets to current liabilities ratio of the borrower shall not be lower than 1:1. However, in exceptional cases, banks / DFIs may relax this ratio

upto 0.75:1 if they are satisfied that appropriate risk mitigants have been put in place or the ratio has been adversely impacted due to the nature of the business of the borrower.

3. For the purpose of this regulation, subordinated loans shall be counted as equity of the borrower. Banks / DFIs should specifically include the condition of subordinated loan in their Offer Letter. The subordination agreement to be signed by the provider of the subordinated loan, should confirm that the subordinated loan will be repaid after that bank's / DFI's prior approval.

4. This regulation shall not apply in case of exposure fully secured against liquid assets held as collateral, as well as in cases where the exposure is taken on Units / Projects revived as a consequence of settlement under Committee for Revival of Sick Industrial Units (CRSIU), Corporate & Industrial Restructuring Corporation (CIRC) and the State Bank of Pakistan BPD Circular No. 29 dated October 15, 2002, for a period of five years from the date of such settlement. Export finance and finance provided to ginning and rice husking factories shall also be excluded from the borrowings (exposure) for the purpose of this regulation.

5. Where the banks / DFIs have taken exposure on exceptional basis as provided in para 1 & 2 above, they shall record in writing the reasons and justifications for doing so in the approval form and maintain a file in their central credit office containing all such approvals. The Exceptions Approval file shall be made available to the inspection team of State Bank during the inspection.

**REGULATION R-6**  
**EXPOSURE AGAINST SHARES / TFCs**  
**AND ACQUISITION OF SHARES**

**1. A) EXPOSURE AGAINST SHARES / TFCs:**

Banks / DFIs shall not:

- (a) take exposure against the security of shares / TFCs issued by them.
- (b) provide unsecured credit to finance subscription towards floatation of share capital and issue of TFCs.
- (c) take exposure against the non-listed TFCs 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 issued by that person or any of his group companies. For the purpose of this clause, person shall not include individual.

- (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 members of the Central Depository System.
- (h) take exposure against unsecured TFCs or non-rated TFCs or TFCs rated below 'BBB' or equivalent.

**1. B) ACQUISITION OF SHARES:**

Banks / DFIs shall not own shares of any company / scrips in excess of 5% of their own equity. Further, the total investments of banks in shares should not exceed 20% of their own equity. DFIs which are not mobilizing funds as deposits / COIs from general public / individuals will be exempt from the requirement of capping their total investment in equities. However, DFIs which are mobilizing funds as deposits / COIs from general public / individuals will be required to contain their investment in shares upto 35% of their equity. The shares will be valued at cost of acquisition for the purpose of calculating bank's / DFI's exposure under this regulation. The investments of the bank / DFI in its subsidiary companies (listed as well as non-listed) and strategic investments of the bank / DFI (marked as such at the time of investment and to be disposed off only with the prior approval of State Bank of Pakistan) shall not be included in these limits. The shares acquired in excess of 5% limit due to the underwriting commitments will be sold off / off loaded within a period of three months.

The condition of capping aggregate exposure shall also be applicable on Islamic banks to the extent of 35% of their equity. The banks / DFIs breaching the limit under clause 1 (B) of this regulation shall regularize their position within one year from the date of issuance of these regulations. For the purpose of this regulation, shares will also include units of all forms of Mutual Funds excluding NIT units.

2. Banks / DFIs shall not hold shares in any company whether as pledgee, mortgagee, or absolute owner, of an amount exceeding 30% of the paid-up share capital of that company or 30% of their own paid-up share capital and reserves, whichever is less.

3. Exposure against the shares of listed companies shall be subject to minimum margin of 30% of their current market value, though the banks / DFIs may, if they wish, set higher margin requirements keeping in view other factors. The banks / DFIs will monitor the margin on at least 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 pre-fact written authorization from the borrower enabling the bank / DFI to do this.

4. Exposure against TFCs rated 'A' (or equivalent) and above by a credit rating agency on the approved panel of State Bank of Pakistan shall be subject to a minimum margin of 10% while the exposure against TFCs rated 'A-' and 'BBB' shall be subject to a minimum margin of 20%.

#### **REGULATION R-7** **GUARANTEES**

All guarantees issued by the banks / DFIs shall be fully secured, except in the cases mentioned at Annexure-III 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 requirement of security can also be waived by the banks / DFIs in cases of guarantees issued to Pakistani firms and companies functioning in Pakistan against the back to back / counter guarantees of branches of guarantee issuing bank / DFI or banks / DFIs rated at least 'A' or equivalent by a credit rating agency on the approved panel of State Bank of Pakistan or Standard & Poor, Moody's and Fitch-Ibca. The banks / DFIs are encouraged to set limits for acceptance of guarantees issued by other banks / DFIs.

3. 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 or Fitch-Ibca.

4. 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**

##### **LOANS / ADVANCES:**

Banks / DFIs shall observe the prudential guidelines given at Annexure-IV in the matter of classification of their asset portfolio and provisioning there-against.

2. In addition to the time-based criteria prescribed in Annexure-IV, 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.

3. The rescheduling / restructuring of non-performing loans shall not change the status of classification of a loan / advance etc. unless the terms and conditions of rescheduling / restructuring are fully met for 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 outstanding amount is recovered in cash. Further, the unrealized mark-up on such loans (declassified after rescheduling / restructuring) shall not be taken to income account unless at least 50% of the amount is realized in cash. However, this will not impact the de-classification of this account if all other criteria (meeting the terms and conditions for at least for one year and payment of at least 10% of outstanding amount by the borrower) are met. Accordingly, banks / DFIs are directed to ensure that status of classification, as well as provisioning, is not changed in relevant reports to the State Bank of Pakistan merely because 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 'default'.

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.

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.

All fresh loans granted by the banks / DFIs to a party 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. Banks / DFIs shall classify their loans / advances portfolio and make provisions in accordance with the criteria prescribed above. Moreover, where banks / DFIs wish to avail the benefit of collateral held against loans / advances, they can consider the value, determined in accordance with the guidelines laid down in Annexure-V, of assets mortgaged / pledged with them, for deduction from the outstanding principal amount of loan / advance against which such assets are mortgaged / pledged, before making any provision. The value of the mortgaged / pledged assets, other than liquid assets, to be considered for this purpose shall be the forced sale value. Further, Forced Sale Value (FSV) once determined, shall remain valid for three years from the date of valuation during which period the underlying collateral will not be revalued for provisioning purpose. The adjustment factors of 80%, 70% and 50% shall be applied on the value so determined for the purpose of determining provisioning requirement in 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> year of valuation, respectively. Thereafter, the assets shall be revalued and the adjustment factor of 50% shall be applied for all subsequent years. However, the FSV of the collateral shall be restricted to fresh revaluation or previous value, whichever is less. All valuations conducted during the years 2002 & 2003 shall also be considered 1<sup>st</sup> year valuations only for the application of adjustment factors referred to above. However, after completion of three years, from the date of last valuation, such assets will also have to be revalued.

For loans which are classified after the issuance of these Prudential Regulations, the benefit will be available for a period of three years going forward up to 80%, 70% & 50% of the FSV for the years 1, 2 & 3 respectively. From year 4, the benefit for provisioning purposes will then remain at 50% of either the previous FSV or the fresh valuation whichever is less. As for loans which are already classified as of the date of issuance of these Prudential Regulation, the banks / DFIs may take benefit of FSV of collateral for the year ended 2003, in accordance with the previous guidelines on the subject. From year 2004, FSVs will be subject to the adjustment factors of 80%, 70% & 50% in 1, 2 & 3 years respectively and then remain at 50% in subsequent years.

To illustrate this new requirement, two scenarios are presented below. Scenario-1 shows the treatment of an existing classified loan and Scenario-2 shows the treatment for an existing satisfactory category loan which becomes classified after the issuance of these Prudential Regulations.

**Scenario-1:** The collateral has been evaluated in the year 2003 and FSV has been worked out as Rs 300 million. FSV of the collateral has been revalued in the years 2006 & 2009 at Rs 400 million and Rs 450 million respectively, when revaluation is required to be done after completion of three years, if a

bank / DFI wishes to avail the benefit of FSV for the purposes of provisioning.

YEAR	2003	2004	2005	2006	2007	2008	2009
FSV (in Million)	300	300	300				
Adjustment Factors	None*	80% **	70%				
Benefit for Provisioning	300	240	210				
FSV (Revalued)				400			
Value taken ***				300	300	300	
Adjustment Factors				50%	50%	50%	
Benefit for Provisioning				150	150	150	
FSV (Revalued)							450
Value taken ***							300
Adjustment Factors							50%
Benefit for Provisioning							150

\* In accordance with the previous guidelines on the subject.

\*\*\* Valuations conducted during the year 2002 and 2003 will be considered 1st year valuations for the purposes of application of adjustment factors.

\*\* Fresh FSV after three years or previous FSV, whichever is lower.

**Scenario-2:** When the property has been evaluated after the year 2004, say in year 2005 and FSV is Rs 200 million and revalued FSV in year 2008 is Rs 250 million. The benefit of the provisioning would be available in the following manner:

YEAR	2004	2005	2006	2007	2008	2009	2010
FSV (in Million)		200	200	200			
Adjustment Factors		80%	70%	50%			
Benefit for Provisioning		160	140	100			
FSV – Revalued					250		
Value taken *					200	200	200
Adjustment Factors					50%	50%	50%
Benefit for Provisioning					100	100	100

\* Fresh FSV after three years or previous FSV, whichever is lower.

5. Banks / DFIs are allowed transition period upto December 31, 2004 to regularize their provisioning position in accordance with the incremental provisioning requirement given at para 4 above

#### **INVESTMENTS AND OTHER ASSETS:**

6. Investment portfolio / 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:

(i) **Quoted Securities:**

? Government Securities will be valued at PKRV (Reuter Page) and diminution, if any, will be subject to provision.

? TFCs, PTCs and shares will be valued at their market value and provided for to the extent of difference in their market value and book value.

(ii) **Un-quoted Securities:**

PTCs and TFCs will be classified on the evaluation / inspection date on the basis of default in their repayment in line with the criteria prescribed for classification of medium and long-term facilities. The shares will be classified on the basis of break-up value. Where break-up value is less than the book value, the difference of book value and break-up value will be classified as loss.

(iii) **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 Accounting Standards.

**SUBMISSION OF RETURNS:**

7. Banks / DFIs shall submit the borrower-wise annual statements regarding classified loans / advances to the Banking Inspection Department.

**TIMING OF CREATING PROVISIONS:**

8. Banks / DFIs shall review, at least on a quarterly basis, the collectibility of their loans / advances portfolio and shall properly document the evaluations so made. Shortfall in provisioning, if any, determined, as a result of quarterly assessment shall be provided for immediately in their books of accounts by the banks / DFIs on quarterly basis.

**REVERSAL OF PROVISION:**

9. In case of cash recovery, other than rescheduling / restructuring, banks / DFIs may reverse specific provision held against classified assets, subject to the following:

- i) In case of Loss account, reversal may be made to the extent that the remaining outstanding amount of the classified asset is covered by minimum 100% provision.
- ii) In case of Doubtful account, reversal may be made to the extent that the remaining outstanding amount of the classified asset is covered by minimum 50% provision.
- iii) In case of Substandard account, reversal may be made to the extent that the remaining outstanding amount of the classified asset is covered by minimum 20% provision.

Further, the provision made on the advice of State Bank of Pakistan will not be reversed without prior approval of State Bank of Pakistan.

**VERIFICATION BY THE AUDITORS:**

10. 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**

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. Banks / DFIs may, however, underwrite TFCs, commercial papers and other debt instruments issued by NBFCs, and issue guarantees in favour of multilateral agencies for providing credit to NBFCs, provided the banks' / DFIs' such exposure remains within the per party exposure limit as prescribed in Regulation R-1. 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. The total amount of guarantees issued by an NBFC, and accepted by the banks, on the strength of which the exposure will be allowed by the commercial bank / DFI, will not exceed per party limit of the bank / DFI as mentioned in Regulation R-1. 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**

**FACILITIES TO PRIVATE LIMITED COMPANY**

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.

**REGULATION R-11**

**PAYMENT OF DIVIDEND**

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

- (a) they meet the minimum capital requirements 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 R-12**  
**MONITORING**

While extending fund based facilities to borrowers against hypothecation of stock and / or receivables on pari-passu basis, banks / DFIs shall obtain monthly statements from borrowers that contain a bank-wise break-up of outstanding amounts with the total value of stocks and receivables there-against.

**REGULATION R-13**  
**MARGIN REQUIREMENTS**

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, this relaxation shall not apply in case of items, import of which are banned by the Government. Banks / DFIs are advised not to open import letter of credit for these items in any case till such time the lifting of ban on any such item is notified by the State Bank of Pakistan.

2. Banks / DFIs will continue to observe margin restrictions on shares / TFCs as per existing instructions under Prudential Regulations for Corporate / Commercial Banking (R-6). Further, 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.

3. State Bank of Pakistan shall continue to exercise its powers for fixation / reinstatement of margin requirements on financing facilities being provided by banks /DFIs for various purposes including Import Letter of Credit on a particular item(s), as and when required.

**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 banks / DFIs will provide information about the appointment of proposed President / Chief Executive and Director on the Board on proforma (Annexure VI-A) for obtaining necessary clearance. Besides, the candidates for the post of President / Chief Executive and directors of Board will be required to meet the Fit and Proper Test (FPT) laid down in Annexure VII-A.

**B. RESPONSIBILITIES OF THE BOARD OF DIRECTORS:**

The Board of Directors shall assume its role independent of the influence of the Management and should know their 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 and regulations and high business ethics.
3. All the members of the Board should undertake and fulfill their duties and responsibilities keeping in view their legal obligations under all the applicable laws and regulations.
4. The Board shall clearly define the authorities and key responsibilities of both the Directors and the Senior Management without delegating its policymaking powers to the Management and shall ensure that the Management is in the hands of qualified personnel.
5. The Board shall approve and ensure implementation of policies, including but not limited to, in areas of Internal Audit & Control, Compliance, Risk

Management, Human Resources, Credit, Write-offs, Recovery, Rescheduling / Restructuring of debt, Treasury Management, Investments, Acquisition/Disposal of fixed assets, Donations / Charities, Prevention of Frauds & Forgeries and any other operational area which the Board and / or the Management may deem appropriate from time to time. The Board shall also be responsible to review and update existing policies periodically and whenever circumstances justify.

6. As regards Internal Audit or Internal Control, a separate department shall be created which will 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 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. 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.

9. To share the load of activities, the Board may form specialized committees with well-defined objectives, authorities and tenure. These committees, preferably comprising of 'Non-Executive' board members, shall oversee areas like audit, risk management, recruitment, compensation, credit, etc. without indulging in day-to-day operations in these areas. These committees should apprise the full board of their activities and achievements on regular basis.

10. 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.

**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 he / she has the controlling interest, shall be appointed in the bank / DFI in any capacity save as Chief Executive of the bank / DFI (which should not exceed one in any case). Further, paid executives of the bank / DFI appointed as directors on the Board should not be more than 25% of the total directors.

2. The banks / DFIs may pay a reasonable and appropriate fee to their non-executive directors for attending meetings of the Board of Directors or committees constituted by the Board, in addition to the payment for traveling including conveyance for the above purpose and boarding and lodging. However, the amount of fee paid to the non-executive directors for attending each such meeting, along with the total expenditure to be incurred under this head during the year, should be got approved post facto in the Annual General Meeting. It may please be ensured that except as mentioned above, no other payment or perquisites will be paid to the non-executive directors. Furthermore, no consultancy or allied work will be awarded to the non-executive Directors or to the firms / institutions / companies etc. in which they hold substantial interest.

**D. COMPLIANCE OFFICER:**

Banks / DFIs shall put in place a Compliance Programme 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 Compliance Officers will primarily be responsible for bank's / 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 programme, (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 programme of compliance down the line under the supervision of a Compliance Officer. A compliance report in this regard alongwith name, contact and address of the Compliance Officer and a copy of that bank's / DFI's compliance programme may be furnished to State Bank latest by 31st October 2003.

**E. FITNESS AND PROPRIETY OF KEY EXECUTIVES:**

Banks / DFIs shall strictly follow the guidelines contained in the 'Fit and Proper Test' (FPT) at Annexure VII-B during the course of appointment of key executives particularly those having the following functional responsibilities:

- (a) Chief Financial Officer / Head of Finance / Head of Accounts.
- (b) Head of Internal Audit.
- (c) Country Treasurer.
- (d) Head of Credit/ Risk Management.
- (e) Head of Operations.
- (f) Head of Compliance.
- (g) Head of Human Resource.

2. No prior approval is required from the State Bank of Pakistan for aforementioned appointments and each bank / DFI shall report only brief information of such appointments, as and when made, as per format given at Annexure VI-B to the Director Banking Policy Department for information and record within 7 days from the date of joining of these executives.

3. 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.

4. 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 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 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 alongwith names of donees, to whom total donations/ contributions during the year were made in excess of Rs 100,000/. In the case of donations where any director or his 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 and Fitch-Ibca and 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 M-1**  
**KNOW YOUR CUSTOMER (KYC)**

In view of recent heightened global efforts to prevent the possible use of the banking sector for money laundering, terrorist financing, transfer of illegal/ill-gotten monies, and as conduit for white collar crime etc., the importance of 'Know Your Customer (KYC) / customer due diligence' has increased. In line with the international best practices, as also to ensure transparency/prudence in banking transactions while starting relationship with a new customer and maintaining and continuing relationship with existing customers, the following minimum guidelines are required to be followed by banks / DFIs. However, banks / DFIs are free to obtain any further information/documents from customers/other banks / DFIs as they deem fit, provided the same are reasonable and applied across the board.

2. Each Bank / DFI shall formulate and keep in place, in writing, a comprehensive Know-Your-Customer policy duly approved by their Board of Directors and in case of branches of foreign banks, approved by their head office, and cascade the same down the line to each and every branch/office/ concerned officers for strict compliance.

3. All reasonable efforts shall be made to determine true identity of every prospective customer. For this purpose, minimum set of documents given at Annexure-VIII must be obtained from various types of customers/ account holder(s).

4. Banks / DFIs shall obtain 'Introduction' on the new account to assess the prospective customer's/account holder's integrity, respectability and the nature of business etc. Any laxity in this regard may result in serious consequences for the banker. The following guidelines are to be followed in this regard:

- (i) Where the introducer is an existing account holder of the same branch, his introduction should be accepted, after due verification of signature by the official of the branch. In case the introducer is an account holder of another branch of the same bank / DFI, the account should only be opened after proper verification of the signature from the concerned branch.
- (ii) Where the introducer happens to be an account holder of another bank / DFI, the introduction should be accepted after complete verification of the signature and other particulars of the introducer from that bank / DFI.
- (iii) The introduction by the employees of the bank / DFI may also be acceptable. However, he or she will have to establish that sufficient information has been collected on the new account holder for making the introduction and that they believe that 'Introduction' from a person other than the bank's / DFI's employee is not necessary. (The introduction of a person other than by the branch employee is being

stressed to ensure maximum authenticity on the status of the would-be accountholder/customer, beside minimizing the chances of undesirable accounts which may be opened on the introduction of the bank / DFI employees in their pursuit to achieve targets of opening maximum number of accounts and treating the 'Introduction' a mere formality in the process).

5. Bank / DFI and their branches shall obtain satisfactory evidence duly verified / authenticated by the branch manager which shall be placed on record in respect of (i) the true identity of the beneficial owners of all accounts opened by a person, entity etc, (ii) the real party in interest or controlling person/entity of the account(s) in case of nominee or minors account.

6. Banks / DFIs are also advised that KYC/customer due diligence is not a one time exercise to be conducted at the time of entering into a formal relationship with customer/account holder. KYC/customer due diligence is an on-going process for prudent banking practices. To this end, banks / DFIs are required to:

- (i) Set up a compliance unit with a full time Head.
- (ii) Put in place a system to monitor the accounts and transactions on a regular basis.
- (iii) Update customer information and records, if any, at reasonable intervals.
- (iv) Install an effective MIS to monitor the activity of the customers' accounts.
- (v) Chalk out plan of imparting suitable training to the staff of bank / DFI periodically.
- (vi) Maintain proper records of customer identifications and clearly indicate, in writing, if any exception is made in fulfilling the due diligence procedure.

7. Banks / DFIs shall develop guidelines for customer due diligence, including a description of the types of customers that are likely to pose a higher than average risk to a bank / DFI. In preparing such policies, factors such as customers' background, country of origin, public or high profile position, nature of business, etc. should be considered. Enhanced due diligence shall be applied:

- (i) To high-risk customers such as those belonging to countries where KYC and money laundering regulations are lax, those with links to offshore tax havens, customers in cash based businesses in high-value items, and high net worth customers with no clearly identifiable source of income etc.
- (ii) Where they have reason to believe that the customer has been refused banking facilities by another bank / DFI.
- (iii) For opening of correspondent banks' accounts, and taking appropriate measures to obtain all relevant information about the respondent bank.

(iv) In dealing with non-face-to-face/ on-line customers. Adequate measures in this regard should also be in place, e.g. independent verification by a reliable third party, client report from the previous bank / DFI of the customer etc.

8. Banks / DFIs will also undertake customer due diligence measures, including identifying and verifying the identity of walk-in-customers conducting transactions above an appropriate limit to be prescribed by the banks / DFIs themselves.

9. State Bank of Pakistan, during the course of inspection, would particularly check the efficacy of the KYC system put in place by the banks / DFIs and its compliance by all the branches and the staff members. Appropriate action shall be taken against the bank / DFI and the concerned staff members for non-compliance and negligence in this area, under the provisions of Banking Companies Ordinance, 1962.

**REGULATION M-2**  
**ANTI-MONEY LAUNDERING MEASURES**

Banks / DFIs are advised to follow the following guidelines to safeguard themselves against their involvement in money-laundering activities, and other unlawful trades. These will add to or reinforce the precautions, banks / DFIs may have been taking on their own in this regard:

- (a) Banks / DFIs shall ensure that their business is conducted in conformity with high ethical standards and that banking laws and regulations are adhered to. It is accepted that banks / DFIs normally do not have effective means of knowing whether a transaction stems from or forms part of wrongful activity. Similarly, in an international context, it may be difficult to ensure that cross border transactions on behalf of customers are in compliance with the regulations of another country. Nevertheless banks / DFIs should not set out to offer services or provide active assistance in transactions, which in their opinion, are associated with money derived from illegal activities.
- (b) Specific procedures be established for ascertaining customer's status and his source of earnings, for monitoring of accounts on a regular basis, for checking identities and bonafides of remitters and beneficiaries, for retaining internal record of transactions for future reference. The transactions, which are out of character/inconsistent with the history, pattern, or normal operation of the account involving heavy deposits / withdrawals / transfers, should be viewed with suspicion and properly investigated.

- (c) For an effective implementation of banks' / DFIs' policy and procedures relating to anti money laundering / other unlawful trades, suitable training be imparted to members of staff and they be informed of their responsibility in this regard.

2. Keeping in view the above principles, banks / DFIs shall issue necessary instructions for guidance and implementation by all concerned.

### **REGULATION M-3** **RECORD RETENTION**

The records of transactions and identification data etc. maintained by banks / DFIs occupy critical importance as far as legal proceedings are concerned. The prudence demands that such records may be maintained in systematic manner with exactness of period of preservation to avoid any set back on legal and reputational fronts. Banks / DFIs shall therefore, maintain, for a minimum period of five years, all necessary records on transactions, both domestic and international. The records so maintained must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved, if any) so as to provide, if necessary, to SBP or law enforcement agencies for investigation or as an evidence in legal proceedings. Banks / DFIs shall, however, retain those records for longer period where transactions relate to litigation or are required by the Court of law or by any other competent authority.

2. The banks / DFIs shall keep records on the identification data obtained through the customer due diligence process (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the business relationship is ended.

3. The records relating to the suspicious transactions reported by the bank / DFI will be retained by the bank / DFI, even after the lapse of the period prescribed above, till such time the bank / DFI gets permission from State Bank of Pakistan to destroy such record.

### **REGULATION M-4** **CORRESPONDENT BANKING**

The banks / DFIs shall gather sufficient information about their correspondent banks to understand fully the nature of their business. Factors to consider include:

- ? Know your customer policy (KYC)
- ? Information about the correspondent bank's management and ownership
- ? Major business activities

- ? Their location
- ? Money laundering prevention and detection measures
- ? The purpose of the account
- ? The identity of any third party that will use the correspondent banking services (i.e. in case of payable through accounts)
- ? Condition of the bank regulation and supervision in the correspondent's country

2. The banks / DFIs should establish correspondent relationships with only those foreign banks that have effective customer acceptance and KYC policies and are effectively supervised by the relevant authorities.

3. The banks / DFIs should refuse to enter into or continue a correspondent banking relationship with a bank incorporated in a jurisdiction in which it (the correspondent bank) has no physical presence and which is unaffiliated with a regulated financial group (i.e., shell banks). The banks / DFIs should also guard against establishing relations with correspondent foreign financial institutions that permit their accounts to be used by shell banks.

4. The banks / DFIs should pay particular attention when continuing relationships with correspondent banks located in jurisdictions that have poor KYC standards or have been identified by Financial Action Task Force as being "non-cooperative" in the fight against money laundering.

5. The banks / DFIs should be particularly alert to the risk that correspondent accounts might be used directly by third parties to transact business on their own behalf (e.g., payable-through-accounts). In such circumstances, the banks / DFIs must satisfy themselves that the correspondent bank has verified the identity of and performed on-going due diligence on the customers having direct access to accounts of the correspondent bank / DFI and that it is able to provide relevant customer identification data upon request to the correspondent bank / DFI.

6. Approval should be obtained from senior management, preferably at the level of Executive Vice President or equivalent, before establishing new correspondent banking relationships.

#### **REGULATION M-5** **SUSPICIOUS TRANSACTIONS**

The banks / DFIs should pay special attention to all complex, unusually large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. Examples of such suspicious transactions are listed at Annexure-IX. However, these are not intended to be exhaustive and only provide examples of the most basic ways in which money may be laundered. The back ground and purpose of such transactions should, as

far as possible, be examined, the findings established in writing, and be available to help the relevant authorities in inspection and investigation.

2. If the bank / DFI suspects, or has reasonable grounds to suspect, that funds are the proceeds of a criminal activity, it should report promptly within three days, after conducting appropriate investigation, its suspicions, through Compliance Officer of the bank / DFI to Banking Policy Department of the State Bank of Pakistan. The report should contain, at a minimum, the following information:

- (a) Title, type and number of the accounts.
- (b) Amounts involved.
- (c) Detail of the transactions.
- (d) Reasons for suspicion.
- (e) Nature of the underlying criminal activity, the bank / DFI suspects, has generated the proceeds under suspicion.

3. The employees of the banks / DFIs are strictly prohibited to disclose the fact to the customer or any irrelevant quarter that a suspicious transaction or related information is being reported for investigation.

4. In cases of foreign branches of the banks/DFIs and subsidiaries of the banks/DFIs in foreign countries undertaking banking business, the banks/DFIs would ensure compliance with the regulations (relating to Anti Money Laundering and KYC) of State Bank of Pakistan or the relevant regulations of the host country, whichever are more exhaustive.

**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 machines.

2. 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, etc.

**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 in Suspense Account 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, may be classified as "Other Assets" and the above instructions shall not be applicable to the foregoing items. Besides, entries relating to frauds and forgeries, cash theft and looted, payments against equity, scrips / debt instruments and contributory payments of capital nature to be capitalized at a later stage shall also be excluded from the purview of the said regulation. The exclusion of entries relating to frauds and forgeries, cash theft and looted will,

however, be subject to the condition that the same are cleared immediately on receipt of insurance claims.

3. Banks / 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 not exceed twenty percent of the equity (net of accumulated losses) of the bank or of the institution with whom the funds are being placed, whichever is lower. The limit shall, however, not be applicable on placement of funds by the bank with its own branches overseas. Furthermore, compliance with all other relevant Prudential Regulations shall 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.

7. Banks will report the equivalent Pak Rupee amount (with a foot note on \$ equivalent) of FE 25 deposits utilized for trade related activities under newly created code No.80-05 of their Weekly Statement of Position submitted to the Banking Supervision Department.

**GUIDELINES REGARDING LIMIT ON EXPOURE  
TO A SINGLE PERSON UNDER REGULATION R-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 excluded.
- 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 credit rating agency on the approved panel of State Bank of Pakistan, Standard & Poors, Moody or Fitch Ibc, shall be deducted. Similar weightage to guarantees issued by the International Finance Corporation (IFC), Commonwealth Development Corporation (CDC) Deutsche Investitions and ntwicklungsgesellschaft nbH (DEG), Netherland Financierings Maatschappijvoor 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 50% shall be given to;
  - (i) documentary credits opened by banks / DFIs;
  - (ii) guarantees / bonds other than financial guarantees;
  - (iii) underwriting commitments.
- F) The following different weightages will be applicable to exposure taken against commercial banks / DFIs in respect of placements;
  - (i) 10% weightage on exposure to banks / DFIs with 'AAA' rating.

- (ii) 25% weightage on exposure to banks / DFIs rated 'A' and above.
- (iii) 50% weightage on exposure to banks / DFIs rated 'BBB' and above.

The banks / DFIs shall, however, 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 this regulation, exposure shall not include the following:
- (i) Loans and advances (including bills purchased and discounted) given to the Federal Government or any of their agencies under the commodity operations programme of the Federal Government, or guaranteed by the Federal Government.
  - (ii) Obligations under letters of credit and letters of guarantee to the extent of cash margin held by the bank / DFI.
  - (iii) 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.
  - (iv) Letters of credit opened on behalf of Federal Government where payment is guaranteed by State Bank of Pakistan / Federal Government.
  - (v) Facilities provided to commercial banks / DFIs through REPO transactions with underlying SLR eligible securities.
  - (vi) 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 resources.
  - (vii) Letters of credit established for the import of plant and machinery.

**BORROWER'S BASIC FACT SHEET- FOR CORPORATE  
PRESCRIBED UNDER REGULATION R-3**

Date of Request. \_\_\_\_\_

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

**1. BORROWER'S PROFILE:**

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

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

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

**3. MANAGEMENT:**

<b>A) EXECUTIVE DIRECTORS/PARTNERS:</b>			
Name	Address	NIC #	Phone #
1.			
2.			
<b>B) NON-EXECUTIVE DIRECTORS/PARTNERS:</b>			
Name	Address	NIC #	Phone #
1.			
2.			

**4. CORPORATE STATUS:**

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

**5. NATURE OF BUSINESS:**

<b>Industrial</b>	<b>Commercial</b>	<b>Agricultural</b>	<b>Services</b>	<b>Any other</b>

**6. REQUESTED LIMITS:**

	<b>Amount</b>	<b>Tenor</b>
<b>Fund Based</b>		
<b>Non-Fund Based</b>		

**7. BUSINESS HANDLED/EFFECTED WITH ALL FINANCIAL INSTITUTIONS DURING THE LAST ACCOUNTING YEAR:**

<b>Imports</b>	<b>Exports</b>	<b>Remittances effected (if any)</b>

**8. EXISTING LIMITS AND STATUS:**

	<b>Amount</b>	<b>Expiry Date</b>	<b>Status</b>	
			<b>Regular</b>	<b>Amount Overdue(if any)</b>
<b>Fund Based</b>				
<b>Non-Fund Based</b>				

**9. ANY WRITE-OFF, RESCHEDULING/ RESTRUCTURING AVAILED DURING THE LAST THREE YEARS:**

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

**10. DETAILS OF PRIME SECURITIES MORTGAGED/ PLEDGED:**

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

**11. DETAILS OF SECONDARY COLLATERAL MORTGAGED/ PLEDGED:**

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

<b>B) AGAINST REQUESTED/ FRESH/ ADDITIONAL FACILITIES:</b>			
Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value
1.			
2.			

**12. CREDIT RATING (WHERE APPLICABLE):**

Name of Rating Agency	Rating

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

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

**14. FACILITIES TO ASSOCIATED CONCERNS BY THE CONCERNED FI:**

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

**15. DETAILS OF PERSONAL GUARANTEES PROVIDED BY THE DIRECTORS / PARTNERS ETC. TO FIs TO SECURE CREDIT:**

Names of the Guarantors	Institutions/persons to whom Guarantee given	Amount of Guarantee	Validity Period	NIC #	NTN	Net-worth

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

During 1 <sup>st</sup> Year	During 2 <sup>nd</sup> Year	During 3 <sup>rd</sup> Year

**17. SHARE PRICES OF THE BORROWING ENTITY:**

Listed Company		Break-up Value of the Shares in case of Private Limited Company
Current Price	Preceding 12 Months Average	

**18. NET-WORTH (PARTICULARS OF ASSETS OWNED IN THEIR OWN NAMES BY THE DIRECTORS/PARTNERS/PROPRIETORS):**

Owner's Name	Particulars of Assets	Market value	Particulars of Liabilities

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

Name of Financial Institution	Amount

- 20. Details of payment schedule if term loan sought.
- 21. Latest Audited Financial Statements as per requirements of Regulation R3 to be submitted with the LAF (Loan Application Form).
- 22. Memorandum and Articles of Association, By-laws etc. to be submitted by the borrower along with the request.

I certify and undertake that the information furnished above is true to the best of my knowledge.

\_\_\_\_\_  
CHIEF EXECUTIVE'S/ BORROWER'S  
SIGNATURE & STAMP

COUNTER SIGNED BY:

\_\_\_\_\_  
AUTHORISED SIGNATURE & STAMP  
(BANK / DFI OFFICIAL)

**ANNEXURE II-B**

**BORROWER'S BASIC FACT SHEET - FOR INDIVIDUALS  
PRESCRIBED UNDER PRUDENTIAL REGULATION R-3**

Date of Request. \_\_\_\_\_

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

**1. BORROWER'S PROFILE:**

Name										Address									
Phone #										Fax #					E-mail Address				
Office					Res.														
National Identity Card #										National Tax #									
Father's Name					Father's National Identity Card #														

**2. REFERENCES (AT LEAST TWO):**

Name										Address									
Phone #										Fax #					E-mail Address				
Office					Res.														
National Identity Card #										National Tax #									

**3. NATURE OF BUSINESS/ PROFESSION:**

Industrial	Commercial	Agricultural	Services	Any other

**4. EXISTING LIMITS AND STATUS:**

	Amount	Expiry Date	Status		
			Regular	Amount Over-due (if any)	Amount Rescheduled/ Restructured (if any)
Fund Based					
Non-Fund Based					

**5. REQUESTED LIMITS:**

	<b>Amount</b>	<b>Tenor</b>
<b>Fund Based</b>		
<b>Non-Fund Based</b>		

- 6. Details of payment schedule if term loan sought.
- 7. Latest Income Tax / Wealth Tax Form to be submitted by the borrower.

I certify and undertake that the information furnished above is true to the best of my knowledge.

\_\_\_\_\_  
**APPLICANT'S SIGNATURE &  
STAMP**

COUNTER SIGNED BY:

\_\_\_\_\_  
**AUTHORISED SIGNATURE & STAMP  
(BANK / DFI OFFICIAL)**

**CASES ELIGIBLE FOR RELAXATION UNDER REGULATION R-7**

For bid bonds issued on behalf of local consultancy firms bidding for international contracts where the consultancy fees are to be received in foreign exchange, and including Bid Bonds issued on behalf of all contractors of goods and services bidding against International Tenders.

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.

(i) 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.

(ii) 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.

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

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

<b>CLASSIFICATION</b>	<b>DETERMINANT</b>	<b>TREATMENT OF INCOME</b>	<b>PROVISIONS TO BE MADE</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>
1. OAEM (Other Assets Especially Mentioned).	Where mark-up/ interest or principal is overdue (past due) by 90 days from the due date.	Unrealized mark-up/ interest to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	No Provision is required.
2. Substandard.	Where mark-up/ interest or principal is overdue by 180 days or more from the due date.	As above.	Provision of 20% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and adjusted forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
3. Doubtful.	Where mark-up/ interest or principal is overdue by one year or more from the due date.	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and adjusted forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with

the guidelines provided in this regulation.

4. Loss.	(a) Where mark-up/ interest or principal is overdue beyond two years or more from the due date.	As above.	Provision of 100% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and adjusted forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
	(b) Where Trade Bills (Import/Export or Inland Bills) are not paid/adjusted within 180 days of the due date.	As above.	As above.

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

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
1. OAEM (Other Assets Especially Mentioned).	Where mark-up/ interest or principal is overdue (past due) by 90 days from the due date.	Unrealized mark-up/ interest to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	No Provision is required.
2. Substandard.	Where installment of principal or interest/ mark-up is overdue	As above.	Provision of 20% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable

	by one year or more.		without recourse to a Court of Law and adjusted forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
3. Doubtful.	Where installment of principal or interest/ mark-up is overdue by two years or more.	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and adjusted forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
4. Loss.	Where installment of principal or interest/ mark-up is overdue by three years or more.	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 adjusted forced sale value of mortgaged/ pledged assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.

**Note:**

*Classified loans / advances that have been guaranteed by the Government would not require provisioning, however, markup / interest on such accounts shall be taken to suspense account instead of income account.*

**UNIFORM CRITERIA FOR DETERMINING THE VALUE  
OF ASSETS MORTGAGED / PLEDGED (REGULATION R-8)**

Only assets having registered mortgage, equitable mortgage (where NOC for creating further charge to another bank / DFI / NBFC has not been issued by bank / DFI) and pledged assets shall be considered. Assets having pari-passu charge shall be considered on proportionate basis of outstanding amount.

2. Hypothecated assets and assets with second charge and floating charge shall not be considered.
3. Valuations shall be carried out by an independent professional valuer who should be listed on the panel of valuers maintained by the Pakistan Banks' Association (PBA) for this purpose. PBA shall lay down the minimum eligibility criteria with the prior approval of the State Bank of Pakistan for placement of valuers on the panel to be maintained by it. The valuer while assigning any values to the mortgaged / pledged assets, shall take into account all relevant factors affecting the salability of such assets including any difficulty in obtaining their possession, their location, condition and the prevailing economic conditions in the relevant sector, business or industry. The values of mortgaged / pledged assets so determined by the valuers must have to be a reasonably good estimate of the amount that could currently be obtained by selling such assets in a forced / distressed sale condition. The valuers should also mention in their report the assumptions made, the calculations / formulae / basis used and the method adopted in determination of the values.
4. Full Scope Valuation shall be done at least once in three years. For example any valuation done on November 01, 1999 would be valid for consideration for the accounting periods ending on December 31, 1999, December 31, 2000 and December 31, 2001, thus for subsequent accounting periods, a fresh valuation would be required. 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. Evaluators on the panel of the PBA will be eligible to conduct only two Full Scope valuations consecutively of a company, as such the companies being evaluated will require to change evaluator after two consecutive Full Scope valuations i.e. for a full period of six years.
5. State Bank may check the valuations of the mortgaged assets through an independent evaluator, on random basis, to verify the reasonableness of the valuations. The unjustified differences in the valuations of the banks / DFIs and State Bank of Pakistan shall render the concerned bank / DFI and evaluator to penal actions.

6. The categories of mortgaged / pledged assets to be considered for valuation along with discounting factors to be applied 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 and as per guidelines given in the TR-23 issued by the Institute of Chartered Accountants of Pakistan (ICAP). Moreover, valuation of shares pledged against loans/advances shall be considered only if these have been routed through Central Depository Company of Pakistan (CDC), otherwise these will not be admissible for deduction as liquid assets while determining required provisions.

b) **Land and Building:**

Valuation of land and buildings would be accepted as determined by the valuers in accordance with the criteria given above and no further discounting factor would be applied on forced sale value determined by them.

c) **Plant and Machinery:**

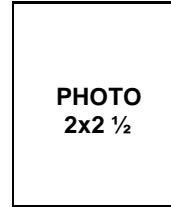
Entities of classified borrowers shall be divided into following categories at the balance sheet date and discounting factors shall be applied to forced sale value as under:

<b>Category</b>	<b>Discounting factors to be applied to forced sale value</b>
A) In operation.	No discounting factor to be applied.
B) In operation at the time of valuation but now closed / in liquidation.	? 15% of forced sale value on the date of closure. ? 1 <sup>st</sup> year after closure-25% of forced sale value ? 2 <sup>nd</sup> year-50% of forced sale value.
C) Closed / in liquidation at the time of valuation and no change in situation.	? After valuation-1 <sup>st</sup> year 25% of forced sale value. ? 2 <sup>nd</sup> year-50% of forced sale value.

d) **Pledged Stocks:**

In case of pledged stocks of perishable and non-perishable goods, forced sale value should be provided by valuers, which should not be more than one year old, at each balance sheet date. The goods should be perfectly pledged, the operation of the godowns should be in the control of the bank / DFI and regular valid insurance and other documents should be available. In case of perishable goods, the valuer should also give the approximate date when these are expected to be of no value.

**QUESTIONNAIRE PRESCRIBED UNDER REGULATION G-1**



1. FULL NAME \_\_\_\_\_
2. FATHER'S NAME \_\_\_\_\_
3. DATE & PLACE OF BIRTH \_\_\_\_\_
4. RELIGION \_\_\_\_\_
5. N.I.C. NUMBER (Old & New) \_\_\_\_\_ N.T.N. \_\_\_\_\_
6. EDUCATION \_\_\_\_\_
7. PRESENT DESIGNATION, DEPARTMENT AND OFFICAL ADDRESS  
\_\_\_\_\_
8. TELEPHONE NUMBERS \_\_\_\_\_
9. IF YOU HAVE CHANGED YOUR NAME, STATE PREVIOUS NAME AND REASONS FOR CHANGE \_\_\_\_\_
10. APPOINTMENTS HELD DURING THE LAST FIVE YEARS (WITH DATES) \_\_\_\_\_  
\_\_\_\_\_
11. NAME(S) & DESIGNATION(S) OF THE DIRECT SUPERVISOR (ONE GRADE UP) UNDER WHOM YOU HAVE SERVED DURING THE LAST FIVE YEARS  
\_\_\_\_\_
12. DATE WHEN YOU LAST FILLED IN A SECURITY VETTING FORM AND THE NAME OF THE DEPARTMENT FOR WHOM FILLED \_\_\_\_\_
13. PRESENT RESIDENTIAL ADDRESS IN FULL \_\_\_\_\_
14. PERMANENT RESIDENTIAL ADDRESS IN FULL \_\_\_\_\_  
\_\_\_\_\_

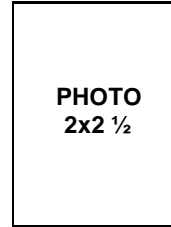
15. CHANGE IN MARITAL STATUS (IF ANY) DURING THE LAST FIVE YEARS. IF SINCE MARRIED, NAME AND FORMER ADDRESS OF THE SPOUSE \_\_\_\_\_
- 
16. NAMES & ADDRESSES OF THREE RESPECTABLE PERSONS (NOT RELATIVES) WHO HAVE BEEN CLOSELY ACQUAINTED WITH YOU DURING THE LAST FIVE YEARS \_\_\_\_\_

\_\_\_\_\_  
SIGNATURE OF CONCERNED OFFICIAL

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\*Additional sheet may be used, if required

**QUESTIONNAIRE – FITNESS AND PROPRIETY OF KEY EXECUTIVES PRESCRIBED UNDER REGULATION G-1**



1. POSITION HELD BY THE EXECUTIVE \_\_\_\_\_
2. FULL NAME \_\_\_\_\_
3. DATE & PLACE OF BIRTH \_\_\_\_\_
4. N.T.N. \_\_\_\_\_
5. EDUCATIONAL QUALIFICATION \_\_\_\_\_
6. PROFESSIONAL QUALIFICATION \_\_\_\_\_ EXPERIENCE \_\_\_\_\_ YEARS
7. TIME SPENT IN CURRENT POSITION \_\_\_\_\_
8. PREVIOUS POSITION / JOB HELD \_\_\_\_\_
9. HAS HE/SHE EVER BEEN CONVICTED OF ANY OFFENCE?  
YES \_\_\_\_\_ NO \_\_\_\_\_  
IF YES, NATURE OF OFFENCE AND PENALTY IMPOSED: \_\_\_\_\_
10. HAS HE/SHE 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) \_\_\_\_\_
11. HAS HE/SHE EVER BEEN DISMISSED FROM EMPLOYMENT?  
YES \_\_\_\_\_ NO \_\_\_\_\_  
IF YES, NAME OF THE EMPLOYER AND REASON FOR DISMISSAL \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
**SIGNATURE & STAMP OF EMPLOYER**

**FIT & PROPER TEST FOR APPOINTMENT OF PRESIDENT /  
CHIEF EXECUTIVE AND DIRECTORS ON BOARD UNDER REGULATION G-1**

**1. INTEGRITY, HONESTY AND REPUTATION**

- i) Has not been convicted in any criminal offence, involved in any fraud / forgery, financial crime etc.
- ii) Has not 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.
- iii) Has not contravened any of the requirements and standards of regulatory system or the equivalent standards of requirements of other regulatory authorities.
- iv) Has not been involved with a company or firm or other organization that has been refused registration / licence to carry out trade, business etc.
- v) Has not been involved with a company/firm whose registration / licence has been revoked or cancelled or gone into liquidation.
- vi) Has not been debarred for being Chief Executive, Chairman or Director of a company.

**2. EXPERIENCE & MANAGEMENT**

This section shall apply separately for Directors and Presidents / Chief Executives as under: -

**i) For Directors on the Board of Bank / DFI**

- 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 any bank(s) / DFI(s) or acting as legal counsel / adviser or on payroll of a bank / DFI.
- b) Must have knowledge of or be familiar with banking field.
- c) Minimum qualification is graduation. Higher education in the discipline of banking and finance may be an added qualification. However, this condition shall not be applicable on the existing Directors on the Board of the bank / DFI.

**ii) For Presidents /Chief Executive Officers of Bank / DFI**

- a) Must be a career banker with sufficient experience, expertise & skill set to successfully undertake responsibilities of the position.
- b) Minimum qualification is graduation. Higher professional education in the disciplines of banking, finance, economics and related fields may be an added qualification. This condition shall not, however, be

applicable to those who have / are already working as President/Chief Executive of the bank / DFI.

**3. TRACK RECORD**

- i) The person must have an impeccable track record in the companies he/she has served either in the capacity of an employee or Director / Chief Executive or as Chairman.
- ii) Has not been terminated or dismissed in the capacity of employee, Director / Chairman of a company.

**4. SOLVENCY & FINANCIAL INTEGRITY**

- i) Has not been associated with any illegal activity especially relating to banking business.
- ii) Has not been in default of payment of dues owed to any financial institution and / or default in payment of any taxes individual capacity or as proprietary concern or any partnership firm or in any private unlisted and listed company.
- iii) Has sufficient means to discharge his / her financial obligations.

**5. CONFLICT OF INTEREST**

- i) The Directors on the Board should avoid conflict of interest in their activities with, and commitments to, other organizations.
- ii) Is not a Director of any other financial institution. The term financial institution will include any bank, investment finance company, non-banking finance company, venture capital company, housing finance company, leasing company or modaraba company.
- iii) A person can become Director / nominee Director of a bank / DFI unless he falls within one or more categories mentioned below:
  - a) Persons who are holding substantial interest (i.e. not less than 20% of the shares) or are working as Chairman, Director, Chief Executive, Chief Financial Officer, Chief Internal Auditor, Research Analyst or Trader (by whatever name/designation called) of a:
    - i) Money changer (firm or sole proprietorship).
    - ii) Member of a Stock Exchange.
    - iii) Corporate Brokerage House.
    - iv) Any company / entity owned and controlled by the persons mentioned at (i) to (iii) above.
  - (b) Persons who are acting as consultants, advisers of bank / DFI in which they intend to be Directors.

Notwithstanding anything stated above, anyone can become a Director of bank / DFI if he has a minimum holding of 10% or above in the bank / DFI where he intends to become a Director / nominee Director subject to approval of State Bank of Pakistan.

iv) The conflict of interest shall not apply in case of:

- a. Directors nominated by the Government.
- b. Managing Directors and other nominated officials of National Investment Trust (NIT) and Investment Corporation of Pakistan (ICP) till the privatization of these two financial institutions.
- c. Nominees of foreign and local investors, provided that they are appointed on the boards of dissimilar financial institutions.

For the sake of clarity, the term 'dissimilar' implies as an example, that one person appointed as Director on the Board of an investment bank may not again be appointed in any other investment bank.

**FIT & PROPER TEST FOR APPOINTMENT OF  
KEY EXECUTIVES UNDER REGULATION G-1**

**HONESTY, INTEGRITY AND REPUTATION**

- (i) He/She has not been convicted of any criminal offence, particularly offences of dishonesty, fraud, financial crime or other offences under legislation relating to banking and financial services.
- (ii) He/She has not been subject of any adverse findings or any settlement in civil/criminal proceedings particularly with regard to investments, financial/business, misconduct, fraud, formation or management of a body corporate etc.
- (iii) He/She has not contravened any of the requirements and standards of regulatory system or the equivalent standards of requirements of other regulatory authorities, which would adversely reflect on the above areas.

**COMPETENCE AND CAPABILITY**

He/She must have adequate professional qualification and experience commensurate to the job as determined by the bank / DFI.

**TRACK RECORD**

- (i) He/She has not been removed/dismissed in the capacity of an employee, director/ chairman on account of financial frauds, moral turpitude, misconduct and misappropriation of funds.
- (ii) No material adverse reports, from past employers of the person being considered for the key executive post.

**FINANCIAL SOUNDNESS**

He/She has not been in default of payment of dues owed to any financial institution and/or has not been declared as defaulter in payment of any taxes in individual capacity or as proprietary concern.

**CONFLICT OF INTEREST**

- (i) He/She does not head more than one functional area that give rise to conflict of interest within the organization. For example the departments of Audit and Accounts cannot be headed by the same person.
- (ii) He/She does not hold directorship in his/her personal capacity in a business concern that is also a client of the bank / DFI as well as in any other financial institution.

**ANNEXURE-VIII****DOCUMENTS TO BE OBTAINED FROM VARIOUS TYPES OF CUSTOMERS / ACCOUNT HOLDER(S) UNDER REGULATION M-I**

<b>Sr. No.</b>	<b>Nature of Account</b>	<b>Documents / papers to be obtained</b>
I	Individuals	<ol style="list-style-type: none"><li>1. Attested photocopy of Computerized National Identity Card* (CNIC) or passport of the individual by a gazetted officer or an officer of the bank / DFI.</li><li>2. In case the CNIC does not contain a photograph, the bank / DFI should also obtain, in addition to CNIC, any other document such as driving license etc. that contains a photograph.</li><li>3. In case of a salaried person, attested copy of his service card, or any other acceptable evidence of service, including, but not limited to a certificate from the employer.</li><li>4. In case of illiterate person, a passport size photograph of the new account holder besides taking his right and left thumb impression on the specimen signature card.</li></ol>
II	Partnership	<ol style="list-style-type: none"><li>(i) Attested photocopy of identity card of all partners.</li><li>(ii) Attested copy of 'Partnership Deed' duly signed by all partners of the firm.</li><li>(iii) Attested copy of Registration Certificate with Registrar of Firms. In case the partnership is unregistered, this fact should be clearly mentioned on the Account Opening Form.</li><li>(iv) Authority letter, in original, in favor of the person authorized to operate on the account of the firm.</li></ol>
III	Joint Stock companies	<p>Certified copies of:</p> <ol style="list-style-type: none"><li>(i) Resolution of Board of Directors for opening of account specifying the person(s) authorized to operate the company account.</li><li>(ii) Memorandum and Articles of Association.</li><li>(iii) Certificate of Incorporation.</li><li>(iv) Certificate of Commencement of Business.</li></ol>

		<ul style="list-style-type: none"> <li>(v) Attested photocopies of identity cards of all the directors.</li> <li>(vi) List of Directors on Form 29 issued by the Registrar Joint Stock Company.</li> </ul>
IV	Clubs, Societies and Associations	<ul style="list-style-type: none"> <li>(i) Certified copies of <ul style="list-style-type: none"> <li>(a) Certificate of Registration.</li> <li>(b) By-laws/Rules &amp; Regulations.</li> </ul> </li> <li>(ii) Resolution of the Governing Body/Executive Committee for opening of account authorizing the person(s) to operate the account and attested copy of the identity card of the authorized person(s).</li> <li>(iii) An undertaking signed by all the authorized persons on behalf of the institution mentioning that when any change takes place in the persons authorized to operate on the account, the banker will be informed immediately.</li> </ul>
V	Agents Accounts	<ul style="list-style-type: none"> <li>(i) Certified copy of 'Power of Attorney'.</li> <li>(ii) Attested photocopy of identity card of the agent.</li> </ul>
VI	Trust Account	<ul style="list-style-type: none"> <li>(i) Attested copy of Certificate of Registration.</li> <li>(ii) Attested photocopy of identity cards of all the trustees.</li> <li>(iii) Certified copy of 'Instrument of Trust'.</li> </ul>
VII	Executors and Administrators	<ul style="list-style-type: none"> <li>(i) Attested photocopy of identity cards of the Executor/Administrator.</li> <li>(ii) Certified copy of Letter of Administration or Probate.</li> </ul>

**Note:** \*In case where the depositor / borrower has not yet obtained Computerized National Identity Card (CNIC), the banks / DFIs may obtain attested copies of Old National Identity Card and receipt of National Database Registration Authority (NADRA) (evidencing that the client has applied for CNIC) alongwith an undertaking in writing that a copy of CNIC will be submitted immediately on receipt of the same. Further, banks / DFIs may accept an attested copy of valid "Alien Registration Card" issued by National Aliens Registration Authority (NARA) instead of CNIC in case of registered aliens who wish to open a bank account in Pakistan in Pak. Rupees only.

**EXAMPLES OF SUSPICIOUS TRANSACTIONS UNDER REGULATION M-5**

**1. General Comments**

The list of situations given below is intended mainly as a means of highlighting the basic ways in which money may be laundered. While each individual situation may not be sufficient to suggest that money laundering is taking place, a combination of such situations may be indicative of such a transaction. Further, the list is by no means complete, and will require constant updating and adaptation to changing circumstances and new methods of laundering money. The list is intended solely as an aid, and must not be applied as a routine instrument in place of common sense.

A customer's declarations regarding the background of such transactions should be checked for plausibility. Not every explanation offered by the customer can be accepted without scrutiny.

It is justifiable to suspect any customer who is reluctant to provide normal information and documents required routinely by the bank in the course of the business relationship. Banks should pay attention to customers who provide minimal, false or misleading information or, when applying to open an account, provide information that is difficult or expensive for the bank to verify.

**2. Transactions Which Do Not Make Economic Sense**

- i) A customer-relationship with the bank that does not appear to make economic sense, for example, a customer having a large number of accounts with the same bank, frequent transfers between different accounts or exaggeratedly high liquidity;
- ii) Transactions in which assets are withdrawn immediately after being deposited, unless the customer's business activities furnish a plausible reason for immediate withdrawal;
- iii) Transactions that cannot be reconciled with the usual activities of the customer, for example, the use of Letters of Credit and other methods of trade finance to move money between countries where such trade is not consistent with the customer's usual business;
- iv) Transactions which, without plausible reason, result in the intensive use of what was previously a relatively inactive account, such as a customer's account which shows virtually no normal personal or business related activities but is used to receive or disburse unusually large sums which have no obvious purpose or relationship to the customer and/or his business;

- v) Provision of bank guarantees or indemnities as collateral for loans between third parties that are not in conformity with market conditions;
- vi) Unexpected repayment of an overdue credit without any plausible explanation;
- vii) Back-to-back loans without any identifiable and legally admissible purpose.

**3. Transactions Involving Large Amounts of Cash**

- i) Exchanging an unusually large amount of small-denominated notes for those of higher denomination;
- ii) Purchasing or selling of foreign currencies in substantial amounts by cash settlement despite the customer having an account with the bank;
- iii) Frequent withdrawal of large amounts by means of cheques, including traveller's cheques;
- iv) Frequent withdrawal of large cash amounts that do not appear to be justified by the customer's business activity;
- v) Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad;
- vi) Company transactions, both deposits and withdrawals, that are denominated by unusually large amounts of cash, rather than by way of debits and credits normally associated with the normal commercial operations of the company, e.g. cheques, letters of credit, bills of exchange, etc;
- vii) Depositing cash by means of numerous credit slips by a customer such that the amount of each deposit is not substantial, but the total of which is substantial;
- viii) The deposit of unusually large amounts of cash by a customer to cover requests for bankers' drafts, money transfers or other negotiable and readily marketable money instruments;
- ix) Customers whose deposits contain counterfeit notes or forged instruments;
- x) Large cash deposits using night safe facilities, thereby avoiding direct contact with the bank;
- xi) Customers making large and frequent cash deposits but cheques drawn on the accounts are mostly to individuals and firms not normally associated with their business;

- xii) Customers who together, and simultaneously, use separate tellers to conduct large cash transactions or foreign exchange transactions.

**4. Transactions Involving Bank Accounts**

- i) Matching of payments out with credits paid in by cash on the same or previous day;
- ii) Paying in large third party cheques endorsed in favour of the customer;
- iii) Substantial increases in deposits of cash or negotiable instruments by a professional firm or company, using client accounts or in-house company or trust accounts, especially if the deposits are promptly transferred between other client company and trust accounts;
- iv) High velocity of funds through an account, i.e., low beginning and ending daily balances, which do not reflect the large volume of funds flowing through an account;
- v) Multiple depositors using a single bank account;
- vi) An account opened in the name of a moneychanger that receives structured deposits;
- vii) An account operated in the name of an offshore company with structured movement of funds.

**5. Transactions Involving Transfers Abroad**

- i) Transfer of money abroad by an interim customer<sup>1</sup> in the absence of any legitimate reason;
- ii) A customer which appears to have accounts with several banks in the same locality, especially when the bank is aware of a regular consolidated process from such accounts prior to a request for onward transmission of the funds elsewhere;
- iii) Repeated transfers of large amounts of money abroad accompanied by the instruction to pay the beneficiary in cash;
- iv) Large and regular payments that cannot be clearly identified as bona fide transactions, from and to countries associated with (i) the production, processing or marketing of narcotics or other illegal drugs or (ii) criminal conduct;

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<sup>1</sup>An interim customer is one who is not a regular customer of the bank in question, or does not maintain an account, deposit account, safe deposit box, etc. with the bank.

- v) Substantial increase in cash deposits by a customer without apparent cause, especially if such deposits are subsequently transferred within a short period out of the account and/or to a destination not normally associated with the customer;
- vi) Building up large balances, not consistent with the known turnover of the customer's business, and subsequent transfer to account(s) held overseas;
- vii) Cash payments remitted to a single account by a large number of different persons without an adequate explanation.

**6. Investment Related Transactions**

- i) Purchasing of securities to be held by the bank in safe custody, where this does not appear appropriate, given the customer's apparent standing;
- ii) Requests by a customer for investment management services where the source of funds is unclear or not consistent with the customer's apparent standing;
- iii) Larger or unusual settlements of securities transactions in cash form;
- iv) Buying and selling of a security with no discernible purpose or in circumstances which appear unusual.

**7. Transactions Involving Unidentified Parties**

- i) Provision of collateral by way of pledge or guarantee without any discernible plausible reason by third parties unknown to the bank and who have no identifiable close relationship with the customer;
- ii) Transfer of money to another bank without indication of the beneficiary;
- iii) Payment orders with inaccurate information concerning the person placing the orders;
- iv) Use of pseudonyms or numbered accounts for effecting commercial transactions by enterprises active in trade and industry;
- v) Holding in trust of shares in an unlisted company whose activities cannot be ascertained by the bank;
- vi) Customers who wish to maintain a number of trustee or clients' accounts that do not appear consistent with their type of business, including transactions that involve nominee names.

**8. Miscellaneous Transactions**

- i) Purchase or sale of large amounts of precious metals by an interim customer;
- ii) Purchase of bank cheques on a large scale by an interim customer;
- iii) Extensive or increased use of safe deposit facilities that do not appear to be justified by the customer's personal or business activities.