



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

(Updated till June, 2024)

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

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PART – A

DEFINITIONS

For the purpose of these regulations:

1. **Account Holder** means a person who has opened any account with a bank directly or through branchless banking agent or is a holder of deposit/deposit certificate or any instrument representing deposit/placing of money with a bank/DFI or has borrowed money from the bank/DFI.
2. **Branchless Banking Agent** means an agent providing banking services to the customers of a bank/DFI on behalf of the bank/DFI/MFBs under a valid agency agreement.
3. **Bank** means a banking company as defined in the Banking Companies Ordinance, 1962.
4. **Borrower or Obligor** means a person on whom a bank/DFI has taken any exposure during the course of business.
5. **Chief Executive Officer (CEO)**, in relation to bank/DFI means an individual who, subject to the control and directions of the Board of Directors, is entrusted with the whole, or substantially the whole, of the powers of management of the affairs of the bank/DFI occupying the position of Chief Executive Officer and includes President, acting President, Managing Director, Country Head of Foreign bank, Executive assuming charge of the bank for interim period or by whatever name called, and whether under a contract of service or otherwise.
6. **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.
7. **Control** refers to an ownership directly or indirectly through subsidiaries, of more than one half of voting power of an enterprise.
8. **Corporate Card** means credit card issued to the employees of an entity where the repayment is to be made by the said entity.
9. **Derivative** means a type of financial contract the value of which is determined by reference to one or more underlying assets or indices. The major categories of such contracts include forwards, futures, swaps and options. Derivative also includes structured financial products that have one or more characteristics of forwards, futures, swaps and options.
10. **DFI** means Development Financial Institution and includes the, Saudi Pak Industrial and Agricultural Investment Company Limited, Pak Kuwait Investment Company Limited, Pak Libya Holding Company Limited, Pak Oman Investment Company (Pvt.) Limited, House Building Finance Company Ltd., Pak Brunei Investment Company Limited, PAIR Investment Company Limited, Pak-China Investment Company Limited, and any other financial institution notified under Section 3-A of the Banking Companies Ordinance, 1962.
11. **Documents** include vouchers, cheques, bills, pay-orders, promissory notes, securities for leases/advances and claims by or against the bank/DFI or other papers supporting entries in the books of a bank/DFI, or any other document which establishes relationship between the bank/DFI and its customers.

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

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

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

14. Exposure shall include:

- A) Financing Facilities whether fund based or non-fund based extended by a bank/DFI and include:
 - i.) Any form of financing facility extended or Bills purchased/discounted, Bills purchased/discounted on the guarantee of the person.
 - ii.) Credit facilities extended through Corporate Cards.
 - iii.) Any financing obligation undertaken on behalf of the person under a letter of credit including a stand-by letter of credit, or similar instrument.
 - iv.) Loan repayment financial guarantees issued on behalf of the person.
 - v.) Any obligations undertaken on behalf of the person under any other guarantees including underwriting commitments.
 - vi.) Acceptance/endorsements made on account.
 - vii.) Any other liability assumed on behalf of the person to advance funds pursuant to a contractual commitment.
- B) Subscription to or investment in shares, Participation Term Certificates, Term Finance Certificates, Sukuk or any other Commercial Paper by whatever name called issued or guaranteed by the persons.
- C) Exposure (Net open position) on account of derivative transactions allowed under Financial Derivatives Business Regulations (FDBR) issued vide BSD Circular No. 17 dated November 26, 2004.

For the purpose of calculating exposure, the sanctioned limits, or outstanding, whichever are higher, will be considered. However, in case of fully drawn term loans where there is no scope for re-drawal of any portion of the sanctioned limit bank/DFI may consider the outstanding as exposure.

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

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

17. 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.

18. 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.

19. Grace Period means period during which principal amount is not repayable and mark-up amount is continued to be serviced as per the terms and conditions of the financing.¹

¹ [BPRD Circular No. 13 of 2016](#)

- 20. Group** means persons, whether natural or juridical, if one of them or his dependent family members or its **subsidiary**, have **control** or hold **substantial ownership interest** (as defined in these regulations) over the other
For the purpose of this definition:
- a) **Subsidiary** will have the same meaning as defined in Companies Act, 2017 i.e. a company or a body corporate shall be deemed to be a subsidiary of another company if that other company or body corporate directly or indirectly controls, beneficially owns or holds more than 50% of its voting securities or otherwise has power to elect and appoint more than 50% of its directors.
 - b) **Control** refers to an ownership directly or indirectly through subsidiaries, of more than one half of voting power of an enterprise.
 - c) **Substantial ownership/affiliation** means beneficial shareholding of more than 25% by a person and/or by his dependent family members, which will include his/her spouse, dependent lineal ascendants and descendants and dependent brothers and sisters. However, shareholding in or by the Government owned entities and financial institutions will not constitute substantial ownership/affiliation, for the purpose of these regulations.
- 21. Independent Director** means a non-executive director who qualifies the Criteria for Independent Director as defined in section 166 of the Companies Act 2017, provided that the term ‘major shareholder’ used in section 166 of ibid shall be replaced with the term ‘sponsor shareholder’ as defined in PRs.
- 22. Large Exposure** means an exposure of 10% or more of a bank’s/DFI’s equity to a single obligor or a group.
- 23. 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 & Poor’s, Moody’s, Fitch or Japan Credit Rating Agency should be ‘A’ and above.
- The inter-branch indemnity/guarantee issued by the bank’s overseas branch in favor of its sister branch in Pakistan, would also be treated at par with liquid assets, provided the bank is rated ‘A’ and above or equivalent either by Standard & Poor’s, Moody’s, Fitch or Japan Credit Rating Agency (JCRA). The indemnity for this purpose should be similar to a guarantee i.e. unconditional and demand in nature.
- 24. 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.
- 25. NBFC** means Non-Banking Finance Company as defined in Companies Act 2017 and includes Leasing Company, Housing Finance Company, Investment Bank, Discount House, Asset Management Company and a Venture Capital Company. For the purpose of these regulations, Modaraba will also be considered as NBFC.
- 26. Nominee Director** means a non-executive director nominated on the board of a bank/DFI by the government, sponsors, persons, company, institutions, creditors, etc. by virtue of shareholding and/or interest in the bank/DFI.
- 27. PBA** means Pakistan Banks Association.

28. 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.

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

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

- a.) Directors, CEO, sponsor shareholders, employees or any of their family members.
- b.) Any entity (proprietorship, firm, company or trust) in which a bank / DFI or any of the above persons are interested as director, proprietor, partner or as a shareholder holding 5% or more of paid-up capital in that entity.
- c.) Any other entity which for its business acquisition or provision of services relies / depends to a greater extent on the bank/DFI i.e. major portion (50% or more) of its business (upstream or downstream) is with the bank/DFI.
- d.) Provided, that
 - i. Nominee director, appointed by Federal / Provincial Government by virtue of their shareholding, and;
 - ii. Common independent director between bank/DFI and a borrowing entity,

shall not be taken into account for establishing the relationship of related party, provided the independent director fulfills the criteria, as specified in relevant provisions of laws and regulations, for assessment of independence. Provided further that the related party relationship shall include the personal or family business interests of such director.²

31. Rescheduling means such concession in the grace period or modification in the repayment dates of principal loan amount (without changing overall loan tenor), due to borrowers' **financial difficulty**, which the bank/DFI would not otherwise consider.

32. Restructuring means such concessions to the borrower, due to borrowers' **financial difficulty**, which the bank/DFI would not otherwise consider. Restructuring normally involves modification in the terms & conditions of the financing / securities and generally includes, amongst others, alteration of repayment period, repayable amount, installment amount, mark-up rates (due to reasons other than competitive pricing) etc.

For rescheduling and restructuring, banks/DFIs shall define the term '**financial difficulty and its indicators**' in their board approved credit / risk management policies, inter alia, based on financial ratios and indicators, days past due, nature of facility and borrowers credit worthiness, borrowers' industry, etc.³

33. Secured means exposure backed by Liquid Assets, pledged stock - including pledging against Electronic Warehouse Receipt (EWR) as defined in Collateral Management Companies Regulations, 2019 issued by the SECP⁴, mortgage of land, plant, building, machinery and any other fixed assets, hypothecation of stock (inventory), trust receipt, assignment of receivables, lease rentals and contract receivables, but does not include hypothecation of household goods. The unsecured exposure will be considered as clean.

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

² [BPRD Circular Letter No. 22 of 2018](#)

³ [BPRD Circular No. 13 of 2016](#)

⁴ [BPRD Circular Letter No. 21 of 2019](#)

- 35. Sponsor Shareholders** mean all those shareholders of a bank/DFI holding sponsor shares.
- 36. Sponsor Director** means the member of the Board of Directors of a bank/DFI holding sponsor shares.
- 37. Strategic Investment** is an investment which a bank/DFI makes with the intention to hold it for a period of minimum 5 years.
The following must be noted further in respect of strategic investment:
- a. The bank should mark strategic investment as such at the time of investment.
 - b. If there are a series of purchases of stocks of a company, the minimum retention period of 5 years shall be counted from the date of the last purchase.
- 38. 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 **EXPOSURE LIMITS**

1. Single Obligor/Group Limit

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

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

2. Related Party Exposure Limit:

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

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

The related party exposures shall be subject to the following:

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

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

4. Large Exposure Limit:

- i. The aggregate amount of large exposures of a bank/DFI shall not, at any point in time, exceed 50% of its total fund based and non-fund based exposure, in finance facilities and investments (excluding investment in government securities and loans secured against GoP guarantees). Large exposure shall not be applicable to investments in government securities and loans secured against GoP guarantees
- ii. Banks / DFIs are advised to follow guidelines given at Para 1(a) to 1(c) of [Annexure-I](#) of PRs for Corporate / Commercial Banking, to calculate the large exposure limits.

- iii. The aggregate large exposure limit of 50% will, however, not be applicable on banks operating, in Pakistan, with less than ten branches.⁵

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

REGULATION R-2

LIMIT ON EXPOSURE AGAINST CONTINGENT LIABILITIES

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

REGULATION R-3

FINANCIAL ANALYSIS & OTHER CONDITIONS

1. Financial Analysis:

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

⁵ [BPRD Circular Letter No. 11 of 2017](#)

- d) Banks/DFIs are advised to properly assess the credit need of the borrower based on their financial analysis and genuine credit requirements.

2. Credit Report

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

3. Borrower Basic Fact Sheet

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

REGULATION R-4

SECURITY AND MARGIN REQUIREMENTS

1. Security Requirements

- a) All exposures shall be adequately secured. However, banks/DFIs, in aggregate, may provide clean financing facility in any form up to Rs 2,000,000/- (Rupees two million only) to any single obligor. Financing facilities granted without securities, including those granted against personal guarantees, shall be deemed as 'clean' for the purpose of this regulation, except:
- i. financing facilities extended against the security of guarantee of Government of Pakistan (GoP); wherein, the guarantee is in process of issuance, on account of, completion of administrative requirements & codal formalities; and the Finance Division, GoP, for the interim period, has issued a 'Letter of Comfort (LoC)'. In such cases, the bank/DFI shall ensure that:
 - I. the guarantee of the GoP is issued within a maximum period of ninety days from the date of disbursement of financing facility;
 - II. the LoC is issued in the form and substance acceptable to it, and legally protects the interests of the bank/DFI;
 - III. the financing facility remains in conformity with other laws and regulations; and
 - IV. the prospective guarantee of GoP is within the limits enshrined under relevant provisions of applicable laws / rules and has been approved by the competent authority.⁶

Further, at the time of granting a clean facility, banks/DFIs shall obtain a written declaration to the effect that the borrower has not availed of such facilities from other banks/DFIs so as to exceed the prescribed limit of Rs. 2,000,000/- in aggregate.

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

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

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

- i. Facilities provided to finance the export of commodities eligible under Export Finance

⁶ [BPRD Circular Letter No. 02 of 2020](#)

- Scheme backed by LCs.
 - ii. Financing covered by the guarantee of Pakistan Export Finance Guarantee Agency up to the amount of guarantee.
 - iii. Loans / advances given to the employees of the banks / DFIs in accordance with their entitlement / staff loan policy.
 - iv. Investment in COIs / interbank placements with NBFCs, provided the investee NBFC is at least rated 'A' for long-term rating and 'A2' for short-term rating or equivalent by a recognized rating agency.
 - v. Investment of banks/DFIs in subordinated and unsecured TFCs, issued by other banks/DFIs to raise Tier-II Capital as per State Bank of Pakistan's instructions.
- e) Banks/DFIs will be free to decide about obtaining security/collateral against the L/C facilities for the interim period, i.e. from the date of opening of L/C till the receipt of title documents to the goods.

2. Requirement of Personal Guarantee

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

3. Margin Requirements

- a) Banks/DFIs are free to determine the margin requirements on facilities provided by them to their clients taking into account the risk profile of the borrower(s) in order to secure their interests. However, in cases where margin has been prescribed by State Bank/Government of Pakistan, appropriate margin shall at least be equal to the prescribed margin.
- b) Exposure against the shares of listed companies shall be subject to minimum margin of 30% of their current market value. However, the banks/DFIs may consider to set higher margin requirements, and maintain list of shares acceptable as security, keeping in view liquidity, trading activity and other factors. Banks/DFIs will monitor the margin at least on weekly basis and will take appropriate action for top-up and sell-out on the basis of their Board of Directors' approved credit policy and prior written authorization from the borrower enabling the bank/DFI to do this.
- c) Exposure against TFCs/Sukuk rated 'BBB' and above by a credit rating agency on the approved panel of State Bank of Pakistan shall be subject to a minimum margin of 20%.

REGULATION R-5 **MONITORING**

1. Collateral Management

- a) The banks/DFIs shall have in place Collateral Management Policy duly approved by the BOD or Country Head (in case of branches of foreign banks). The policy may be part of the bank's overall credit policy or separate as deemed appropriate by the bank/DFI. The Policy shall cover different aspects related to collateral such as generally acceptable forms, quality, valuation at the time of acceptance as well as over the tenor of loan, haircuts, price volatility, diversification, margin calls limits, substitution of collateral and managing collateral in the event of a counterparty default.
- b) The policy shall clearly delineate the responsibilities in various scenarios, including safe custody & inspection of collateral, where bank/DFI is a sole lender or where it is one of multiple lenders. In the latter case the policy should cover the aspect of coordination with other financial institutions particularly where financing is made against hypothecation of stock and/or receivables on pari-passu or ranking charge basis and pledge of stock.
- c) The Banks/DFIs shall devise an appropriate mechanism to ensure that the financing extended is utilized for the intended purpose. Further, they will also ensure that financing is not used for non-productive purpose like hoarding, speculation etc.

2. Joint Inspection of Pledged Stocks

- a) All the banks/DFIs financing any particular customer against pledge of stocks of below mentioned commodities shall conduct joint inspection of the pledged stocks at least once in a quarter, where

aggregate exposure against such stocks equals or exceeds the amount shown against each commodity:

Commodity	Aggregate Committed Exposure (limits)
Cotton (bales), excluding phutti	Rs. 500 million
Sugar	Rs. 500 million
Wheat	Rs. 250 million
Rice/Paddy	Rs. 150 million
Edible Oil	Rs. 250 million

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

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

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

REGULATION R-6

EXPOSURE IN SHARES AND TFCs/SUKUK

1. Acquisition of Shares/Mutual Funds:

A. Single Company Investment Limit:

(i) The investment of banks/DFIs, in aggregate, in shares of any single company shall be lower of the following two limits:

(a) 5 percent of Tier-I Capital of the bank/DFI reported in preceding half-yearly reviewed / annual audited financial statements; or,

(b) 10 percent of paid-up shares of Investee Company.

The above limits shall also be applicable to investment of banks/DFIs in units of all types of mutual funds.

(ii) The investment of banks/DFIs, in aggregate, in shares/units of any single startup (including Fintech Startups) or any single Real Estate Investment Trust (REIT) shall be lower of the following limits, respectively:

(a) Startups: 5 percent of Tier-I Capital of the bank/DFI reported in preceding half-yearly reviewed / annual audited financial statements or Rs. 500 million.

(b) REITs: 5 percent of Tier-I Capital of the bank/DFI reported in preceding half-yearly reviewed / annual audited financial statements or 15 percent of paid up shares of Investee Company.

(iii) The banks/DFIs shall have an approved policy incorporating therein an internal evaluation process for an objective analysis and assessment of their equity investment decisions, which must consider factors including, inter alia, financial standing of the bank/DFI, aggregate investment portfolio, risk appetite and expected return, level of expertise, business strategy including exit strategy etc.⁷

⁷ [BPRD Circular Letter No. 04 of 2022](#)

B. Aggregate Investment Limits:

- i.) Aggregate equity investment limit for banks, and DFIs which are mobilizing funds as deposits/COIs from general public/individuals, shall be 30% of their respective equity.
 - ii.) For Islamic banks, and DFIs which are not mobilizing funds as deposits/COIs from general public/individuals, the aggregate investment limit will be 35% of their respective equity.
 - iii.) Within the above limits, Banks/DFIs may take maximum exposure in future contracts up to 10% of their equity on aggregate basis. In this connection, the 10% exposure limit for future contracts will include both positions taken in futures buying and selling.
 - iv.) Exposure as a result of strategic investment and investment in units of all forms of Mutual Funds, excluding NIT units till its privatization, shall also be considered part of above limits.
 - v.) Aggregate investment limit in units of REIT shall be 15% of equity of the bank/DFI, exclusive of the above aggregate limits.⁸
 - vi.) Investments of the bank/DFI in its subsidiary companies (listed as well as non-listed) shall not be included in these limits.
2. The limits prescribed in para 1 above shall not apply to the shares acquired due to the underwriting commitments, satisfaction of debts or debt-equity conversion scheme. However these will be sold off/off loaded within a period of eighteen months; otherwise the same will be counted towards the above limit from the expiry of that period. The banks/DFIs are required to plan their disposal to ensure compliance within the due date.
3. Investment in preference shares, which fulfill the criteria of equity instrument as laid down in [Annexure-III](#), shall be considered as part of investment in equities. Correspondingly, any investment in preference shares that do not conform to these conditions shall not be included in the limits prescribed under this regulation. However, such investment portfolio will be considered as part of the maximum exposure limit as prescribed under R-1 of these regulations.
4. For the purpose of calculating bank's/DFI's exposure, investments will be valued at cost of acquisition unless mentioned otherwise. While calculating the maximum limit for investment in shares, the amount of provisions created against permanent impairment by debiting the Profit & Loss account, as instructed vide BSD Circular No.10 dated July 13, 2004, may be deducted from the cost of acquisition of such investments and the maximum limit.

5. Financing against Shares/TFCs/Sukuk

Banks/DFIs shall not:

- a) take exposure against the security of shares/TFCs/Sukuk issued by them.
- b) provide unsecured credit to finance subscription towards floatation of share capital and issue of TFCs/Sukuk.
- c) take exposure against the non-listed TFCs/Sukuk or the shares of companies not listed on the Stock Exchange(s). However, banks/DFIs may make direct investment in non-listed TFCs.
- d) take exposure on any company against the security of shares/TFC/Sukuk issued by that company.⁹
- e) take exposure against 'sponsor director's shares' (issued in their own name or in the name of their family members) of banks/DFIs.
- f) take exposure on any one person (whether singly or together with other family members or companies owned and controlled by him or his family members) against shares of any commercial bank/DFI in excess of 5% of paid-up capital of the share issuing bank/DFI.
- g) take exposure against the shares/TFCs of listed companies that are not member of the Central Depository System.
- h) take exposure against unsecured or non-rated TFCs or TFCs rated below 'BBB' or equivalent. Exposure may, however, be taken against unsecured/subordinated TFCs, which are issued by the banks/DFIs for meeting their minimum capital requirements, as per terms and conditions stipulated in BSD Circular No. 8 of June 27, 2006.
- i) take exposure against shares unless the beneficiary of the facility is absolute owner of the

⁸ [BPRD Circular Letter No. 07 of 2021](#)

⁹ [BPRD Circular Letter No. 07 of 2021](#)

shares so pledged or has the necessary mandate to pledge the shares of third party as security for availing financing facility from the bank/ DFI.

REGULATION R-7

GUARANTEES

1. All guarantees issued by the banks/DFIs shall be fully secured, except in the cases mentioned at [Annexure-IV](#) where it may be waived up to 50% by the banks/DFIs at their own discretion, provided that banks/DFIs hold at least 20% of the guaranteed amount in the form of liquid assets as security.

2. The banks/DFIs can issue guarantees on behalf of Pakistani firms and companies functioning in Pakistan against the back to back/counter-guarantees of banks/DFIs rated at least 'A' or equivalent by a credit rating agency on the approved panel of State Bank of Pakistan. Besides, the counter-guarantee of bank/DFI situated in a foreign country is also acceptable if it has the rating of at least 'A' or equivalent on global or National Rating scale by Standard & Poor, Moody's, Fitch, Japan Credit Rating Agency (JCRA) or a local credit rating agency of the respective country provided the guarantee issuing bank in Pakistan is comfortable with and accepts the counter-guarantee of such foreign bank.

Moreover, subject to the following conditions and limits, banks/DFIs can issue guarantee against the back-to-back/counter guarantee of an unrated, or rated below 'A', bank/DFI that is situated in a foreign country:

- a. The aggregate amount of all such guarantees at any point in time should not exceed 10% of the bank's/DFI's own equity as disclosed in the latest audited financial statements;
- b. The banks/DFIs will have a board of directors (BoD) approved policy having internal limits for acceptance of such counter guarantees based on, inter alia, their own risk appetite and relevant risk factors. The policy may also set more conservative limits than as prescribed in para (a) above. There shall also be instituted a mechanism to monitor such exposures and limits.¹⁰

3. Furthermore, the Banks/DFIs may provide guarantees/ performance bonds, in favour of residents of Pakistan, on the basis of counter guarantee of the banks falling within the world ranking of 1000 on the basis of Balance Sheet size. In this regard the banks/DFIs will have a Board approved policy having internal limits for acceptance of such counter guarantees based on, inter alia, their own risk appetite and risk profile of the counter-guarantee issuing bank. The Banks/DFIs shall also institute a mechanism to monitor such limits.

4. Banks/DFIs shall ensure that counter-guarantees received are properly evaluated and their own guarantees against such guarantees are issued with due care.

5. Cases where payments are not received within 20 working days by the banks/DFIs when the guarantees of overseas banks are invoked, shall be reported to SBP indicating the steps being taken by the bank/DFI to recover the amount due under the guarantee.

6. In case of back to back letter of credit issued by the banks/DFIs for export oriented goods and services, banks/DFIs are free to decide the security arrangements at their own discretion subject to the condition that the original L/C has been established by branches of guarantee issuing bank or a bank rated at least 'A' by Standard & Poor, Moody's, Fitch or Japan Credit Rating Agency (JCRA).

7. The guarantees shall be for a specific amount and expiry date and shall contain claim lodgment date. However, banks/DFIs are allowed to issue open-ended guarantees without clearance from State Bank of Pakistan provided banks/DFIs have secured their interest by adequate collateral or other arrangements acceptable to the bank/DFI for issuance of such guarantees in favour of Government departments, corporations/autonomous bodies owned/controlled by the Government and guarantees required by the courts.

¹⁰ [BPRD Circular Letter No. 17 of 2021](#)

REGULATION R-8
CLASSIFICATION AND PROVISIONING FOR ASSETS

1. Loans/Advances:

- a) Banks/DFIs shall observe the prudential guidelines given at [Annexure-V](#) in the matter of classification of their asset portfolio and provisioning there-against on time based criteria.
- b) In addition to the time-based criteria prescribed in [Annexure-V](#), subjective evaluation of performing and non-performing credit portfolio shall be made for risk assessment and, where considered necessary, any account including the performing account will be classified, and the category of classification determined on the basis of time based criteria shall be further downgraded. Such evaluation shall be carried out on the basis of credit worthiness of the borrower, its cash flow, operation in the account, adequacy of the security, inclusive of its realizable value and documentation covering the advances.

2. Benefit of collateral/security held:

- a) Banks/DFIs are allowed to take the benefit of Forced Sale Value (FSV) of the pledged stocks, plant & machinery under charge, and mortgaged residential, commercial and industrial properties held as collateral against Non-Performing Loans (NPLs) for calculating provisioning requirement as tabulated below:

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

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

- b) Banks/DFIs may avail the above benefit of FSV subject to compliance with the following conditions:
- i.) The additional impact on profitability arising from availing the benefit of FSV shall not be available for payment of cash or stock dividend/bonus to employees.
- ii.) Heads of Credit of respective banks/DFIs shall ensure that FSV used for taking benefit of provisioning is determined accurately as per guidelines contained in PRs and is reflective of market conditions under forced sale situations; and
- iii.) Borrower-wise details of all such cases where banks/DFIs have availed the benefit of FSV shall be maintained for verification by State Bank's inspection team during regular/special inspection.
- c) Any misuse of FSV benefit detected during regular/special inspection of State Bank shall attract strict punitive action under the relevant provisions of the Banking Companies Ordinance, 1962.

Furthermore, State Bank may also withdraw the benefit of FSV from bank/DFI found involved in its misuse.

3. Rescheduling/Restructuring:

- a) Banks/DFIs may reschedule/restructure their loans as per their policy but it should not merely to avoid classification. The rescheduling/restructuring of non-performing loans shall not change the status of classification of a loan/advance etc. unless the terms and conditions of rescheduling/restructuring are fully met for a period of at least one year (excluding grace period, if any) from the date of such rescheduling/restructuring and at least 10% of the total restructured loan amount (principal + mark-up), is recovered in cash. However, the condition of one year retention period, prescribed for restructured/rescheduled loan account to remain in the classified category, will not apply in case the borrower has repaid or adjusted in cash at least 35% of the total restructured loan amount (principal + mark-up), either at the time of restructuring agreement or later-on during the grace period if any.

Any accrued mark-up on such financing facilities which have been rescheduled / restructured for more than once and have been maintained in regular category, should not be taken to income account, unless the terms & conditions of rescheduling / restructuring are fully met for a period of at least one year (excluding grace period, if any) from the date of such rescheduling / restructuring and at least 10% of the total rescheduled / restructured amount (principal + mark-up) is recovered in cash. However, the above condition of one year, prescribed for accrued mark-up not to be transferred to income account, will not apply in case borrower has repaid or adjusted in cash at least 35% of the total rescheduled / restructured loan amount (principal + mark-up), either at the time of rescheduling/restructuring agreement or later-on during the grace period, if any.

The following will, however, be exempt from the above requirement.

Financing facilities;

- i. secured against Government guarantees,
- ii. fully secured by liquid securities,
- iii. allowed to Public Sector Entities,
- iv. allowed for Infrastructure financing,
- v. of principal amount of less than Rs300 million.

In short term finance facilities administered as tranches under a single master limit, (i) threshold limit of Rs. 300 million, and, (ii) multiple rescheduling / restructuring counter will be reckoned on tranche basis.

- b) The unrealized mark-up on loans (declassified after rescheduling/restructuring) shall not be taken to income account unless at least 50% of the amount is realized in cash. However, any short recovery in this respect will not impact the de-classification of this account if all other criteria (meeting the terms and conditions for at least one year and payment of at least 10% of outstanding amount by the borrower) are met. The banks/DFIs are further directed to ensure that status of classification, as well as provisioning, is not changed in relevant reports to the State Bank of Pakistan merely because a loan has been rescheduled or restructured. However, while reporting to the Credit Information Bureau (CIB) of State Bank of Pakistan, such loans/advances may be shown as 'rescheduled/restructured' instead of 'overdue'. For syndicate loans, only the 'Agent Bank (security trustee)' is to report the rescheduling / restructuring, on behalf of syndicate members, to eCIB database.¹¹
- c) Where a borrower subsequently defaults (either principal or mark-up) after the rescheduled/restructured loan has been declassified by the bank/DFI as per above guidelines, the loan will again be classified in the same category it was in at the time of rescheduling/restructuring and the unrealized markup on such loans taken to income account shall also be reversed. However, banks/DFIs at their discretion may further downgrade the classification, taking into account the subjective criteria.

¹¹ [BPRD Circular No. 13 of 2016](#): Amendments in regulations will be applicable on rescheduling/restructuring transactions executed from date of the issuance of this circular onwards.

- d) At the time of rescheduling/restructuring, banks/DFIs shall consider and examine the requests for working capital strictly on merit, keeping in view the viability of the project/business and appropriately securing their interest etc.
- e) All fresh loans granted by the banks/DFIs to a borrower after rescheduling/ restructuring of its existing facilities may be monitored separately, and will be subject to classification under this Regulation on the strength of their own specific terms and conditions.

4. Investments and Other Assets:

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

a) Quoted Securities:

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

b) Un-quoted Securities:

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

c) Treatment of Surplus/deficit:

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

d) Other Assets:

Classification of Other Assets and provision required there-against shall be determined keeping in view the risk involved and the requirements of the International Financial Reporting Standards.

5. Timing of Creating Provisions:

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

6. Reversal of Provision:

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

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

7. Verification by the Auditors:

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

REGULATION R-9

ASSUMING OBLIGATIONS ON BEHALF OF NBFCs

1. Banks/DFIs shall not issue any guarantee or letter of comfort nor assume any obligation whatsoever in respect of deposits, sale of investment certificates, issue of commercial papers, or borrowings of any non-banking finance company.

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

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

REGULATION R-10

PAYMENT OF DIVIDEND

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

- a) they meet the minimum capital requirement (MCR) and capital adequacy ratio requirement (CAR) as laid down by the State Bank of Pakistan from time to time;
- b) all their classified assets have been fully and duly provided for in accordance with the Prudential Regulations and to the satisfaction of the State Bank of Pakistan; and
- c) all the requirements laid down in Banking Companies Ordinance, 1962 relating to payment of dividend are fully complied.

REGULATION O-1

UNDERTAKING OF CASH PAYMENTS OUTSIDE THE BANK'S AUTHORIZED PLACE OF BUSINESS

1. 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 up to a maximum cash limit of Rs 10,000/- For this purpose, adequate and suitable security measures should be put in place for cash feeding and safety of the Automated Teller Machines.

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

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

REGULATION O-2

WINDOW DRESSING

Banks/DFIs shall refrain from adopting any measures or practices whereby they would either artificially or temporarily show an ostensibly different position of bank's/DFI's accounts as given in their financial statements. Particular care shall be taken in showing their deposits, MCR, non-performing loans/assets,

provisioning, profit, inter-branch and inter-bank accounts, or any other method to artificially inflate balance sheet or show improved profitability.

REGULATION O-3

RECONCILIATION OF INTER-BRANCH ACCOUNTS AND SETTLEMENT OF SUSPENSE ACCOUNT ENTRIES

1. All entries outstanding in the Inter-Branch Accounts (by whatever name called) and/or Suspense Account must be reconciled/cleared and taken to the proper head of account within a maximum period of 30 days from the date the entry is made in the above-named accounts.
2. Entries made on account of tax at source, advance tax paid, tax recoverable, advance expense on new branches, advance rent paid, legal expenses, mark-up/service charge recoverable, Qarze Hasna for marriage, and forward cover fee, shall not be classified as Suspense Account and may be recorded in their respective head of account under other assets and the above instructions shall not be applicable to these items. Further, outstanding amount of the premium on Crop Loan Insurance Scheme (CLIS) receivable from Government of Pakistan (GoP) shall also be classified in other assets. The outstanding amount shall, however, be reconciled/cleared immediately on reimbursement of premium amount from the GoP. Besides, entries relating to frauds and forgeries, cash theft and looted, payments against equity, scrips/debt instruments and contributory payments of capital nature to be capitalized at a later stage shall also be excluded from the purview of the said regulation. The exclusion of entries relating to frauds and forgeries, cash theft and looted will, however, be subject to the condition that the same are cleared immediately on receipt of insurance claims.
3. Banks/DFIs shall institute an effective internal control system for the operations of Inter-Branch and Suspense Accounts, which ensures reconciliation/clearing of the entries in shortest possible time and also clearly fixes the responsibilities on the official(s) for neglecting the timely reconciliation and clearance.

REGULATION O-4

MAINTENANCE OF ASSETS IN PAKISTAN

Every bank/DFI shall maintain in Pakistan not less than 80% of the assets created by it against such time and demand liabilities as specified in Part-A of Form X (prescribed under Rule 17 of the Banking Companies Rules, 1963). Accordingly, assets held abroad by any bank/DFI shall not, at any point in time, exceed 20% of its time and demand liabilities specified in the said Form X. All other assets financed from sources other than time and demand liabilities specified in the said Form X shall be held within Pakistan.

REGULATION O-5

FOREIGN CURRENCY DEPOSITS UNDER FE 25-1998

1. Banks shall not invest FE 25 deposits in foreign currency/local currency denominated instruments below investment grade. Neither, shall they invest/place such deposits in fund management schemes of other banks/DFIs/NBFCs whether in Pakistan or abroad.
2. Banks shall be required to maintain the prescribed ratio of Cash Reserve/Special Cash Reserve against FE 25 deposits in US Dollars.
3. Placement of funds of FE-25 deposits with any one bank/financial institution, whether in Pakistan or abroad, shall be subject to the following conditions:
 - a) The investing bank shall comply with Regulation R-1 ([Annexure-1](#) Para G), which mentions different weightages according to credit ratings of financial institutions.
 - b) The investing bank will not place in a single institution an amount exceeding 25% of the total investable funds, available with the investing bank, under the FE-25 Deposit Scheme.

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

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

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

6. Foreign currency deposits mobilized under FE 25 scheme, after netting-off the deposits utilized to finance trade related activities such as financing against Import and Export documents, should not at any point exceed twenty percent of the local currency deposits of the banks at the close of business on the last working day of the preceding quarter. Banks/DFIs may also exclude FE-25 Deposits in the form of the Foreign Direct Investment and funds received for social and economic uplift through international donor agencies/welfare organizations from the calculation of above limit of 20%. This will, however, be subject to the condition that the banks/DFIs will obtain an undertaking from the Account Holder that such funds are remitted from abroad and would be used for poverty alleviation and socio-economic uplift. The genuineness of all such exclusions will be verified by the SBP Inspectors during the subsequent inspections.

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

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

1. In arriving at exposure under Regulation R-1:

- A) 100% of the deposits placed with lending bank/DFI, under perfected lien and in the same currency, as that of the loan, shall be deducted.
 - B) 90% of the following shall be deducted;
 - i) deposits placed with the lending bank/DFI, under perfected lien, in a currency other than that of the loan;
 - ii) deposits with another bank/DFI under perfected lien;
 - iii) encashment value of Federal Investment Bonds, Pakistan Investment Bonds, Treasury Bills and National Saving Scheme securities, lodged by the borrower as collateral; and
 - iv) Pak. Rupee equivalent of face value of Special US Dollar Bonds converted at inter-bank rate, lodged by the borrower as collateral.
 - C) 85% of the unconditional financial guarantees accepted as collateral and payable on demand by banks/DFIs, (rated at least 'A' or equivalent by a recognized rating agency) shall be deducted. Same weightage to the guarantees of similar nature issued by the International Finance Corporation (IFC), Commonwealth Development Corporation (CDC), Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG), Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V (FMO), GuarantCo Limited, Asian Development Bank (ADB), Infra Zamin Pakistan Limited¹² and United States International Development Finance Corporation (DFC)¹³ shall also apply.
- However, in respect of above-mentioned banks/DFIs or entities whose guarantee has been accepted as collateral, the beneficiary bank/DFI shall immediately report to SBP
- 1. Any instance where the guarantee issuing bank/DFI or entity fails to honour the claim within 20 working days of the date on which the guarantee is invoked,
 - 2. Any downgrade in the rating of guarantee issuing bank/DFI below 'A'.¹⁴
- D) 50% of listed Term Finance Certificates held as security with duly marked lien shall be deducted. The TFCs to qualify for this purpose should have been rated at least 'A' or equivalent by a credit rating agency on the approved panel of State Bank of Pakistan.
 - E) Weightage of 10% shall be given to pre-shipment/post-shipment credit provided to finance exports of goods covered by letter of credit/firm contracts including financing provided from the bank's /DFI's own sources.
 - F) Financing facilities allowed under TERF/ ITERF for plant and machinery would attract weightage of 25% for the purpose of calculation of Single / Group Obligor Exposure Limit.¹⁵
 - G) Weightage of 50% shall be given to;
 - i) documentary credits (except Standby Letter of Credits where 100% exposure would be counted) opened by banks/DFIs;
 - ii) guarantees/bonds other than financial guarantees;
 - iii) underwriting commitments.

¹² [BPRD Circular Letter No. 22 of 2021](#)

¹³ [BPRD Circular Letter No. 33 of 2021](#)

¹⁴ [BPRD Circular Letter No. 07 of 2016](#)

¹⁵ [BPRD Circular Letter No. 41 of 2020](#)

- H) The following different weightages will be applicable to exposure taken against commercial banks/DFIs in respect of placements;
- 25% weightage on exposure to banks/DFIs with 'AAA' rating.
 - 50% weightage on exposure to banks/DFIs rated 'A' and AA.
 - 100% weightage on exposure to banks /DFIs rated below 'A'.

The banks/DFIs shall ensure that the overall limit for each financial institution in respect of inter-bank placements is invariably approved by their Board of Directors.

2. For the purpose of the Regulation R-1, exposure shall not include the following:

- Loans and advances (including bills purchased and discounted) given to the Federal Government or any of their agencies under the commodity operations program of the Federal Government, or guaranteed by the Federal Government.
- Obligations under letters of credit and letters of guarantee to the extent of cash margin held by the bank/DFI.
- 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.
- Letters of credit opened on behalf of Federal Government where payment is guaranteed by State Bank of Pakistan/Federal Government.
- Facilities provided to commercial banks/DFIs through REPO transactions with underlying SLR eligible securities.
- Letters of credit established for the import of plant and machinery subject to the condition that financial close has been done in case of such LCs.
- Bills discounted/purchased from the borrower, drawn against the L/Cs of banks/DFIs meeting the following criteria.

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

- For the purpose of Regulation R-1, net open exposure shall be used in the calculation on account of derivative transactions as allowed under Financial Derivatives Business Regulations issued vide BSD Circular No. 17 dated November 26, 2004.
- For the purpose of Regulation R-1, reserve shall also include revaluation reserves on account of fixed assets of the bank/DFI to the extent of 50% of their value. However, for this purpose assets must be prudently valued by valuers on the panel of Pakistan Bank Association (PBA), fully taking into account the possibility of price fluctuations and forced sale value. Revaluation reserves reflecting the difference between the book value and the market value will be eligible up to 50%.

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

Date of Request. _____

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

1. BORROWER'S PROFILE:

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

2. NATURE OF BUSINESS:

Industrial	Commercial	Agricultural	Services	Any other

3. CORPORATE STATUS:

Sole Proprietorship	Partnership	Public/Private Limited Company

4. DETAILS OF DIRECTORS/OWNERS/PARTNERS:

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

5. MANAGEMENT:

A) EXECUTIVE DIRECTORS/PARTNERS:

Name	Address	CNIC #	Phone #
1.			
2.			

B) NON-EXECUTIVE DIRECTORS/PARTNERS:

Name	Address	CNIC #	Phone #
1.			
2.			

6. REQUESTED LIMITS:

	Amount	Tenor
Fund Based		
Non-Fund Based		

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

Imports	Exports	Remittances effected (if any)

8. EXISTING LIMITS AND STATUS:

	Amount	Expiry Date	Status	
			Regular	Amount Overdue(if any)
Fund Based				
Non-Fund Based				

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

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

10. DETAILS OF CLEAN FACILITIES CURRENTLY AVAILED:**A) AGAINST EXISTING FACILITIES:**

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

11. DETAILS OF PRIME SECURITIES MORTGAGED/ PLEDGED:**B) AGAINST EXISTING FACILITIES:**

Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value
3.				
4.				

B) AGAINST REQUESTED/ FRESH/ ADDITIONAL FACILITIES:

Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value
1.			
2.			

12. DETAILS OF SECONDARY COLLATERAL MORTGAGED/ PLEDGED:**A) AGAINST EXISTING FACILITIES:**

Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value
1.				
2.				

B) AGAINST REQUESTED/ FRESH/ ADDITIONAL FACILITIES:

Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value
1.			
2.			

13. CREDIT RATING (WHERE APPLICABLE):

Name of Rating Agency	Rating

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

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

15. FACILITIES TO ASSOCIATED CONCERNS BY THE CONCERNED FI:

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

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

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

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

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

18. SHARE PRICES OF THE BORROWING ENTITY:

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

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

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

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

Name of Financial Institution	Amount

21. Details of payment schedule if term loan sought.

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

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

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

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

CHIEF EXECUTIVE'S/
BORROWER'S SIGNATURE
& STAMP

COUNTER SIGNED BY:

AUTHORISED SIGNATURE &
STAMP
(BANK/DFI OFFICIAL)

**CRITERIA FOR PREFERENCE SHARES FOR
INCLUSION IN INVESTMENT IN EQUITIES**

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

CASES ELIGIBLE FOR RELAXATION UNDER REGULATION R-7

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

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

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

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

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
1. Substandard.	Where mark-up/ interest or principal is overdue by 90 days or more from the due date.	Unrealized mark-up /interest to be kept in Memorandum Account and not to be credited to Income Account except when realized in cash. Unrealized mark up/interest already taken to income account to be reversed and kept in Memorandum Account.	Provision of 25% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and Forced Sale Value (FSV) of pledged stocks, plant & machinery under charge, and mortgaged residential, commercial & industrial properties (land & building only) to the extent allowed in Para 2 of the Regulation R-8 (see Note 2 below)
2. Doubtful.	Where mark-up/ interest or principal is overdue by 180 days or more from the due date.	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and FSV of pledged stocks, plant & machinery under charge, and mortgaged residential, commercial & industrial properties (land & building only) to the extent allowed in Para 2 of the Regulation R-8 (see Note 2 below).
3. Loss.	(a) Where mark-up/ interest or principal is overdue by one year or more from the due date	As above	Provision of 100% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and FSV of pledged stocks, plant & machinery under charge, and mortgaged residential, commercial & industrial properties (land & building only) to the extent allowed in Para 2 of the Regulation R-8 (see Note 2 below).
	(b) Where Trade Bills (Import/Export or Inland Bills) are not paid/adjusted within 180 days of the due date.	As above.	As above.

Notes:

1) Classified loans/advances that have been guaranteed by the Government would not require provisioning, however, mark-up/interest on such accounts to be taken to Memorandum Account instead of Income Account.

2) FSV shall be determined in accordance with the guidelines contained in Annexure-VI to these Regulations.

PRs FOR CORPORATE AND COMMERCIAL BANKING**Uniform Criteria for Determining the Value of Pledged Stock, Plant & Machinery under Charge and Mortgaged Properties (Prudential Regulation R-8)**

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

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

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

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

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

- Desktop Valuation is defined as “an Interim Brief Review of Full-scope Valuation, so that any significant change in the factors, on which the Full-scope Valuation was based, is accounted for and brought to the notice of the lending bank/DFI”.
- In case the loan amount exceeds Rs 100 million, the Desktop Valuation will be done by the same evaluator, who had conducted the Full-scope Valuation (the evaluator should be on the panel of the PBA) whereas for loans below this threshold, the Desktop Valuation may be done by the banks/DFIs themselves or by the approved evaluators. For conducting Desktop Valuation, the evaluator will pay a short visit to the borrower’s site. The bank’s/DFI’s responsibility in this respect will be to ensure that the evaluator is contacted for conducting Desktop Valuation and is provided all necessary information which is materially important for the interim review.
- The Desktop Valuation shall be used for determining any additional provisioning requirement only and will not be applied for reducing the provisioning requirement assessed on the basis of Full-scope Valuation.
- In cases where the evaluators are not allowed by the borrowers to enter in their premises, the Full-scope Valuation, conducted as such, will not be accepted for provisioning benefit.

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

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

a) Liquid Assets:

Valuation of Liquid Assets shall be determined by the bank / DFI itself and verified by the external auditors. However, in the case of pledged shares of listed companies, values should be taken at market value as per active list of Stock Exchange(s) on the balance sheet date. Moreover, valuation of shares pledged against loans/advances shall be considered only if such shares are in dematerialized form in the Central Depository Company of Pakistan (CDC), otherwise these will not be admissible for deduction as liquid assets while determining required provisions.

b) Mortgaged Property and Plant & Machinery under Charge:

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

c) Pledged Stocks:

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