

## **PRUDENTIAL REGULATIONS FOR SMEs FINANCING**

- 1. Can an SME, who is willing to fulfill the requirements laid down in Prudential Regulations for Corporate / Commercial Banking, be allowed higher exposure limit as allowed for corporate entities?**

Yes, an SME may be allowed a higher limit than prescribed under Prudential Regulations for SMEs Financing. However, such SME will then have to comply with all the regulations contained in Prudential Regulations for Corporate/Commercial Banking, and its per party limit will accordingly be determined under Prudential Regulations for Corporate/Commercial Banking.

- 2. Do the criteria under the SME definition regarding the number of employees include "employees on contract basis" as well? If so, then what will be the minimum period of contractual services in a financial year as in certain industries labor and supervisors are hired on seasonal basis only?**

The number of employees will also include employees on contract basis for the purpose of concerned definition. In case where the number of employees fluctuates, maximum number of employees during the year will be taken.

- 3. Do the Prudential Regulations for SMEs Financing require maintenance of current ratio and debt equity ratio for SMEs?**

No, Prudential Regulations for SMEs Financing do not require maintenance of current ratio and debt-equity ratio for SMEs.

- 4. Are the different weightages available under Regulation-1 (Annexure-1) of Corporate/ Commercial Banking, in respect of calculating per party/group limit, also available for calculating the per party exposure limit on SMEs?**

No, the different weightages available in respect of different securities and exposures under Prudential Regulations for Corporate / Commercial Banking, while calculating the per party limit, are not available under the Prudential Regulations for SMEs Financing while calculating the per party exposure limit on SMEs.

- 5. Does the 'Total Exposure' calculated under Regulation R-7 and R-2 (aggregate exposure in relation to the stuck-up position of the lending bank/DFI) of Prudential Regulations for SMEs Financing and Consumer Financing respectively, mean principal only?**

Yes, the total exposure means principal outstanding only for the purpose of these regulations.

- 6. Are the banks/DFIs allowed to net-off the 'Total Exposure' under Regulation R-7 and R-2 (aggregate exposure in relation to the stuck-up position of the lending bank/DFI) of Prudential Regulations for SMEs Financing and Consumer Financing respectively, against the amount of liquid assets?**

No, the banks/DFIs are not allowed to net-off the total exposure against the liquid securities under these regulations.

- 7. How is the 'Default Percentage' calculated to arrive at the banks'/DFIs' exposure limits under Regulation R-7 and Regulation R-2 for SMEs Financing and Consumer Financing respectively?**

The default percentage may be calculated on the basis of last year's default position, and will thus remain a benchmark in the corresponding year. However, the following steps should be taken in case the default rate exceeds the benchmark set by the banks/DFIs:

- Concerted efforts should be made towards reduction of the stuck-up portfolio to bring the same in the desired range.
- No fresh loan should be given.
- The position should be brought in the knowledge of SBP for the purpose of regularization.

**8. Whether Corporate Guarantee could be accepted in lieu of Personal Guarantee in case of exposure on SMEs?**

Corporate Guarantee of the parent company (a corporate entity), to secure exposure to its SME subsidiary, may be accepted by the lending bank to fulfill the condition of personal guarantee, mentioned in Regulation R-2 of Prudential Regulations for SME Financing. It may, however, be ensured that the Corporate Guarantee should clearly and specifically undertake to cover the bank's exposure to the subject SME.

**9. Which PRs would apply on an SME that is working as subsidiary of a Corporate entity?**

An SME that is subsidiary of a Corporate entity, will be governed under Prudential Regulations for SME Financing. However, the group exposure limit under Regulation R-1 of PRs for Corporate and Commercial Banking, will be calculated by taking financing facilities, given to both corporate and its SME subsidiary