



## **STATE BANK OF PAKISTAN**

### **REVISED PRUDENTIAL REGULATION NOS. 12 & 14 for MFBs**

#### **PR. No. 12: Classification of Assets And Provisioning Requirements**

##### **(a) Loans & Advances**

The outstanding principal of the loans and advances, payments against which are overdue for 30 days or more shall be classified as Non- Performing Loans (NPLs). The unrealized interest/profit/mark-up/service charges on NPLs shall be suspended and credited to interest suspense account. Further the NPLs shall be divided into following categories:

- i) **Substandard:** loans in arrears (payments/installments overdue) for 30 days or more but less than 90 days
- ii) **Doubtful:** loans in arrears (payments/installments overdue) for 90 days or more but less than 180 days
- iii) **Loss:** loans in arrears (payments/installments overdue) for 180 days or more

MFBs shall maintain a Watch List of all accounts delinquent by 5 – 29 days. However, such accounts may not be treated as NPL for the purpose of Classification/Provisioning.

##### **Provisioning Requirements**

- i) **General Provision:** The MFBs shall maintain a General Provision equivalent to 1.50% of the net outstanding advances (advances net of specific provisions).
- ii) **Specific Provisions:** In addition to the general provision, the MFBs shall make specific provisions against NPLs at the following rates:
  - a. **Substandard:** 25% of outstanding principal net of cash collaterals
  - b. **Doubtful:** 50% of outstanding principal net of cash collaterals
  - c. **Loss:** 100% of outstanding principal net of cash collaterals

**Note:** MFBs shall undertake “Classification and Provisioning” exercise at the end of every month. The MFBs at their discretion may also apply more stringent classification and provisioning criteria for NPLs.

##### **(b) Investments And Other Assets**

The MFBs shall value its investments on mark-to-market basis. However, in case of investments & other assets where active market does not exist, the MFBs shall make subjective evaluation of such investments and other assets to determine their quality, category of classification and provisions required, keeping in view the risks involved and the requirements of international accounting standards.

#### **PR No. 14: Writing-off Non-Performing Loans (NPLs)**

All Non-Performing Loans (NPLs) shall be written off, one month after the loan is classified as “Loss”, this shall, however, not extinguish the MFBs’ right of recovery of such written-off loans.