

Prudential Regulations for Microfinance Banks (MFBs)

1. These Regulations shall be called Prudential Regulations for Microfinance Banks (MFBs).
2. These regulations shall be applicable to all Microfinance Banks licensed by the State Bank of Pakistan.
3. **Definitions-----**(1) For the purpose of these regulations, unless there is anything repugnant in the subject or context:
 - (a) "Documents" include vouchers, bills, promissory notes, bills of exchange, securities for advances, claims by or against the MFB and other record supporting entries in the books of the MFB;
 - (b) "Approved Securities" shall mean registered Pakistan rupee obligation of Federal Government including but not restricted to Pakistan Investment Bonds (PIBs), and Market Treasury Bills (MTBs);
 - (c) "Equity" means and includes Paid-up Capital, Share Premium, General Reserves and un-appropriated profits of the MFB;
 - (d) "Exposure" means Microfinance facilities provided by the MFB including both fund based and non-fund based;
 - (e) "MFBs" shall mean companies incorporated in Pakistan and licensed by the State Bank as Microfinance Banks to mobilize deposits from the public for the purpose of providing Microfinance services;
 - (f) "Deposit" means the deposit of money, repayable on demand or otherwise, accepted by an MFB from the public for the purpose of providing Microfinance services;
 - (g) "Poor person" means person as defined in Prudential Regulation No. 10.
 - (h) "Specified Area" means the district, region (*comprising up to five adjacent districts within the same Province or any other area where MFIs' Ordinance 2001 is applicable*), province or the whole country for which an MFB is licensed to operate;
 - (i) "Contingent Liabilities" means and includes inland letters of credit, letters of guarantee, bid bonds / performance bonds, and advance payment guarantees;
 - (j) "Records" includes ledgers, daybooks, cash books, supporting documents and all other manual or magnetic/electronic records used in the business of the MFB;
 - (k) "State Bank" means State Bank of Pakistan established under The State Bank of Pakistan Act, 1956.

4. Minimum Capital Requirements

- 1) Microfinance Banks (MFBs) shall maintain a minimum paid up capital, *free of losses*, of not less than:
 - a. One hundred million rupees for MFBs licensed to operate in a specified district;
 - b. One hundred and fifty million rupees for MFBs licensed to operate in a specified region;
 - c. Two hundred and fifty million rupees for MFBs licensed to operate in a specified province; and
 - d. Five hundred million rupees for MFBs licensed to operate at national level.
2. All MFBs are required to maintain at all times the minimum paid up capital (free of losses) as prescribed above. However, in case any of the existing MFBs does not meet the prescribed minimum paid up capital requirement, it shall make up the shortfall latest by 31st December, 2008.
3. The MFBs shall also maintain Capital Adequacy Ratio (CAR) equivalent to at least 15% of their risk weighted assets. Instructions on calculation of CAR based on risk weighted assets are provided in Annexure-A. For the purpose of maintaining minimum CAR, MFBs are also allowed to raise sub-ordinate debt in local currency,

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subject to obtaining prior written approval from the SBP. The terms and conditions for raising sub-ordinate debt are provided in Annexure-A.

5. Exposure against Contingent Liabilities

The Contingent liabilities of the MFB for the first three years of its operations shall not exceed three times of its equity and there after shall not exceed 5 times of the MFB's equity.

6. Maintenance of Cash Reserve & Liquidity

- (a) The MFB shall maintain a cash reserve equivalent to not less than 5% of its Time and Demand Liabilities in a current account opened with the State Bank or its agent.
- (b) In addition to cash reserve it shall also maintain liquidity equivalent to at least 10% of its time and demand liabilities in the form of liquid assets i.e. cash, gold and unencumbered approved securities.

7. Statutory Reserve

The MFB shall create a reserve fund to which shall be credited:

- (a) an amount equal to at least 20% of its annual profits after taxes till such time the reserve fund equals the paid-up capital of the MFB.
- (b) thereafter a sum not less than 5% of its annual profit after taxes.

8. Depositors' Protection Fund

The MFB shall, establish and maintain a Depositors' Protection Fund or scheme for the purpose of mitigating risk of its depositors, to which MFB shall credit not less than 5% of its annual profit after taxes.

Note: The Khushhali Bank shall continue to contribute 10% and 5% of its annual after tax profit to Microfinance Social Development Fund & Depositors Protection Fund respectively.

9. Restriction on certain types of transactions

The MFB shall not:

- (a) allow any facility for speculative purposes;
- (b) allow financing facilities and other Microfinance Services to any of its sponsors, directors or employees including their spouses, parents, and children. The rule shall not apply on loans given to employees under staff loan policy of the MFB;
- (c) without the prior approval in writing of the State Bank, enter into leasing, renting and sale / purchase of any kind with its directors, officers, employees or persons who either individually or in concert with their family members, beneficially own 5% or more of the equity of the MFB;
- (d) hold, deal or trade in real estate except for use of MFB itself.

10. Maximum Loan Size, and Disclosure of Basic Terms & Conditions of Financial Products.

a. Housing Loans:

Maximum Loan size is up to Rs. 500,000/- to a single borrower with household annual income up to Rs. 600,000/-. However, at least 60% of housing loan portfolio of an MFB should be within the loan limit of Rs. 250,000/- or below.

b. General Loans (other than housing loans):

Maximum Loan size is up to Rs. 150,000/- to a single borrower with household annual income (net of business expenses) up to Rs. 300,000/-

The MFB shall ensure that the loan amount is commensurate with the business requirements and repaying capacity of the borrower. The MFB shall also ensure that the loans equivalent to the maximum limit are extended only to those borrowers who have established track record of satisfactory repayment. The MFB shall formulate

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well-defined credit policy covering inter alia maximum lending limits, basis for loan pricing, determination of borrowers' repayment capacity, repayment period, Collaterals etc.

11. Maximum Exposure of a borrower from MFBs / MFIs / Other Financial Institutions / NGOs.

The MFB shall develop internal policy to monitor the overall exposure of its borrowers so as to manage credit risk and also minimize the borrowers' over-indebtedness risk.

At the time of granting facility, MFBs shall obtain a written declaration on the prescribed format attached as Annexure–G from the borrower divulging details of various facilities already obtained from other MFBs / MFIs / Banks / other Financial Institutions. The MFB shall ensure that total exposure of its clients does not exceed their total repayment capacity as determined under the criteria laid-out in the MFB's credit policy. The maximum limits of the borrowers' aggregate exposure will be Rs. 150,000/- for general loans, and Rs. 500,000/- for housing loans.

Further, before allowing any facility exceeding Rs.50,000/-, the MFBs shall obtain a credit report from the Credit Information Bureau of State Bank of Pakistan, or from any other Credit Information Bureau of which they are a member. The report should be given due weightage while making credit decision.

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. **Other Assets Especially Mentioned (OAEM):** loans in arrears (payments/installments overdue) for 30 days or more but less than 60 days
- ii. **Substandard:** loans in arrears (payments/installments overdue) for 60 days or more but less than 90 days
- iii. **Doubtful:** loans in arrears (payments/installments overdue) for 90 days or more but less than 180 days
- iv. **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 MFB shall maintain a General Provision equivalent to 1.5% of the net outstanding advances (advances net of specific provisions).
- ii. **Specific Provisions:** In addition to the general provision, the MFB shall make specific provisions against NPLs at the following rates:
 - a **OAEM:** Nil
 - b **Substandard:** 25% of outstanding principal net of cash collaterals
 - c **Doubtful:** 50% of outstanding principal net of cash collaterals
 - d **Loss :** 100% of outstanding principal net of cash collaterals.

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

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(b) Investments and Other Assets

The MFB 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 risk involved and the requirements of international accounting standards.

13. Rescheduling / Restructuring of loans

The MFB shall reschedule / restructure the NPLs as per the policy approved by their BOD. The rescheduled/restructured loans shall, however, remain classified unless serviced regularly for 6 months.

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.

15. Pricing of MF Products and Services

The MFB shall implement appropriate pricing policies, which ensure access to affordable financial services by the poor as well as operational and financial sustainability of MFB.

16. Investments of Funds

MFB may invest their surplus funds in Government Securities, and 'A' rated debt securities like TFCs and units of those Mutual Funds which maintain their investment portfolio in fixed income securities or money market instruments.

In addition, MFB may also acquire or hold shares of any body corporate, the objective of which is to provide microfinance services, technical, vocational, educational, business development and allied services to the poor and micro enterprises. The maximum investment in such a company or security shall not exceed 15% of paid-up share capital of that company or 15% of MFB's own equity free of losses, whichever is less. For making investment in excess of the 15% limit, prior permission from SBP shall be obtained.

17. Prevention of Criminal Use of MFB Channels for the Purposes of Money Laundering and other unlawful trade

While considering proposals for extending Microfinance facilities, the MFB shall make all reasonable efforts to determine the true identity of its clients and shall develop and implement effective procedures and methods for the purpose. It shall inter alia obtain copies of National Identity Card or Passport or Driving license etc. of the client which shall be stamped as "original seen" by the MFB officer. In far-flung and remote areas where people, particularly women, do not have identity cards, the MFB may extend micro-credit by establishing identity through other appropriate means. Before extending deposit services to Corporate clients, the MFB shall obtain by-laws, Memorandum & Articles of Association and Board Resolution etc.

18. Removal of Records

The MFB shall not remove from specified area, to a place outside that specified area, any of its records and documents either physically or electronically relating to its business without the prior permission in writing of the State Bank of Pakistan.

19. Management

No member of the Board of Directors of an MFB holding 5% or more of the paid-up capital of the MFB either individually or in concert with his/her family members or concerns / companies in which he / she has the controlling interest, shall be appointed in the MFB in any capacity save as the Chief Executive of the MFB and that no payment shall be made or perquisites provided to the non-executive

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directors other than traveling and daily allowances for attending meetings of the Board of Directors or its Committees. Provided further that not more than 25% of the total directors can be paid executives of the MFB.

20. Places of business

The MFB shall not open new places of business without prior permission in writing of the State Bank. The approval / permission for opening of new branches / places of business shall be granted in accordance with the MFBs Branch Licensing Policy.

21. Undertaking of cash payments outside the MFBs' authorized place of business

The MFB shall not undertake any business of cash payments at any place other than the authorized place of business. However, this rule will not apply in case of Mobile Banking where permission has been obtained from the State Bank.

22. Reconciliation of inter-branch accounts and settlement of suspense account entries

The Entries booked in the Inter-Branch Accounts and/or Suspense Account must be reconciled/cleared and taken to the proper heads of accounts within a period of 30 days from the date entry is made in the above-named accounts.

23. Audit and submission of Accounts

The MFB shall get its books of accounts audited in line with the provisions of section 16 of Microfinance Institutions Ordinance, 2001 and submit three copies of the annual audited accounts along with the auditors' opinion to the State Bank within three months of the close of the financial year. However, for MFBs licensed under MFIs Ordinance 2001, the State Bank may, in exceptional circumstances, for reasons to be recorded, extend such period up to a period of another one month.

24. Internal Audit

The MFB shall have an Internal Audit Department manned preferably by professionals/persons having prior audit experience in banks/Financial Institutions. The Head of the Department shall report directly to the Board of Directors or to an Audit Committee of the Board.

25. Operational Policies

The MFB shall formulate operational policies for all areas of operations including micro-credit, investments, internal audit, human resource and rescheduling/restructuring/write-off of loans/advances etc. and shall submit the policies, duly approved by its Board of Directors, to State Bank within 6 months of commencement of its operations.

26. Fit & Proper Criteria for Board Members and President/Chief Executive

The Boards of Directors of Microfinance Bank define and set vision and mission and overall goals and objectives to be achieved by the bank, ensure development of policies and risk management systems for different areas of operations and oversees implementation of/compliance with the policies. The President/Chief Executive leads the executive management to implement the Board's plans. The Board Members and President/Chief Executive are also custodians of public savings deposited with the bank and as such should not only be persons of established integrity and track record, but should also have necessary capacity, qualification and experience to effectively undertake their respective responsibilities and functions in order to lead and steer the MFB as a socially conscious, pro poor and commercially viable financial institution.

State Bank of Pakistan has therefore, formulated "Fit & Proper Criteria" for the Board Members and President/Chief Executive of Microfinance banks, which prescribes the minimum qualifications, experience and integrity standards etc. for

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the MFBs' Board Members and President/Chief Executive. The criteria is given at Annexure B, whereas the proforma for submitting the information about the Board Members and/or President/Chief Executive Officer to State Bank is given at annexure C.

27. Submission of Statistical Returns

The MFB shall submit to the State Bank, the following returns, formats of which are annexed herewith:

Title of the Return	Periodicity of the Return	Time period for submission of the return
Statement of Affairs. Annexure – D	Bi-Weekly (Once in two weeks)	Within 7 days of close of the period to which it relates.
Report of Conditions*. Annexure – E	Quarterly	Within Thirty days of the close of the quarter to which it relates.

28. Credit Rating:

The MFBs shall get themselves rated by any of the rating agencies on the panel of State Bank of Pakistan or any international microfinance rating agency with prior approval of SBP, within three years of grant of license by State Bank of Pakistan to operate as MFB or within one year of commencement of deposit mobilization services which ever is earlier.

The rating shall be an ongoing process and updated on a continuous basis from year to year within four months of the close of financial year after the first rating as stated in the first paragraph. The rating report shall be submitted to State Bank of Pakistan within 7 days of notification of the latest rating. The rating shall also be disclosed to the public within 15 days of the notification of the latest rating by the rating agency.

29. Penalties on violation of PRs

The violation of Prudential Regulations for MFBs shall be subject to penalties as determined by SBP from time to time.

30. Disclosure of Lending / Deposit Rates by MFBs

As the clients of MFBs are largely poor and illiterate, it is incumbent upon MFBs to facilitate the public in making informed decisions. For the purpose, henceforth MFBs shall make adequate efforts to educate their clients on important terms and conditions of all their products including loans and savings. While making a complete disclosure of the lending and deposit rates (annualized percentage rate) of all their products in the contract/documents signed with their clients, MFBs' relationship officer shall also read out these terms before their clients.

Moreover, MFBs shall also display important terms and conditions of their products on entrance/ or window of their branches. In addition, MFBs shall also educate their customers about the charges as well as customer's obligations in respect of other services like ATM, micro-insurance etc.

31. Declaration of fidelity and secrecy.-

Every member, director, auditor and staff member of the microfinance bank shall, before entering upon his office and performance of duties, make a declaration of fidelity and secrecy in the form as prescribed in Annexure F.

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ANNEXURE-A

Instructions on Calculation of Capital Adequacy Ratio (CAR)

1. Requirements as to calculation of CAR:

- 1.1 MFBs shall categorize their capital as Core Capital and Supplementary Capital. The components of core & supplementary capital and the risk weights are provided in the annexed Tables A and B respectively.
- 1.2 The inclusion of supplementary capital for calculating Capital Adequacy Ratio shall be limited to 50% of the Core Capital.

2. Computation of Supplementary Capital

- 2.1 General Provisions or General Reserves for loan losses shall include only such provisions which are not created against identified losses and are as such freely available to meet unidentified losses. These provisions or reserves will be limited to maximum of 1.25% of total Risk Weighted Assets.
- 2.2 Revaluation Reserves shall be the Reserves created by revaluation of fixed assets and equity instruments held by the MFB. The assets and investments must be prudently valued fully taking into account the possibility of price fluctuations and forced sale. Revaluation reserves reflecting the difference between the book value and the market value will be eligible upto 50% for treatment under Supplementary Capital subject to the condition that the reasonableness of the revalued amount is duly certified by the external auditors of the MFB.
- 2.3 Sub-ordinate debt shall qualify for inclusion in the Supplementary Capital after obtaining prior written approval from the SBP. Such approval will be granted by SBP on case to case basis subject to fulfillment of the following conditions:
 - a) Sub-ordinate debt can be raised from any person or entity, preferably from the sponsors, in local currency only.
 - b) Rate of profit will be decided by the MFBs, subject to SBP's clearance.
 - c) The loan should be un-secured, plain vanilla and sub-ordinate as to payment of principal and profit to all other indebtedness of the MFB including deposits.
 - d) The loan should have original fixed term to maturity of minimum 5 years.
 - e) The loan should not be repayable before the agreed repayment date without approval of the SBP. Neither the interest nor the principal may be paid even at maturity if such payments mean that the MFB falls below or remain below the capital adequacy ratio.
 - f) Any other restrictions imposed by the State Bank of Pakistan.

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CAPITAL ADEQUACY RATIO AS ON XX.XX.XXXX

Table-A

Sr. No.	ITEMS	AMOUNT
1	<u>Core Capital</u>	
	1.1 Fully Paid-up Capital	xxx
	1.2 Balance in Share Premium Account	xxx
	1.3 Reserve for Bonus Shares	xxx
	1.4 General Reserves	xxx
	1.5 Un-appropriated Profit/(Loss)	xxx
	1.6 Sub-Total (1.1 to 1.5)	xxxxxx
	Less:	
	1.7 Intangible Assets	xxx
	1.8 Shortfall in Provision required against Classified Assets.	xxx
	1.9 Sub-Total (1.7 to 1.8)	(xxxx)
	1.10 Eligible Core Capital (1.6-1.9)	
2	<u>Supplementary Capital</u>	
	2.1 Freely available General Provisions or reserves for loan losses – upto maximum of 1.25% of Risk Weighted Assets	
	2.2 Revaluation reserves – eligible upto 50%	
	2.3 Sub-ordinated debt (upto 50% of core capital)	
	2.4 Sub-Total (2.1 to 2.3)	
3	Total Capital (1.10 + 2.4)	
4	<u>Capital Adequacy Ratio</u>	
	4.1 Risk Weighted Assets (as per Table B)	xxxx
	4.2 Minimum Capital Requirement (15% of Total Risk Weighted Assets as per item 4.1)	xxx
	4.3 Total Capital Held (As At Item 3 Above)	xxx
	4.4 Capital Surplus/(Shortfall) – (4.3 - 4.2)	xxx
	4.5 CAPITAL ADEQUACY RATIO (4.3 / 4.1x 100)	xxx

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RISK-WEIGHTED ASSETS ON-BALANCE SHEET ITEMS

Table-B

S.No.	ITEMS	BOOK VALUE	RISK WEIGHT%	ADJUSTED VALUE
1	Cash		0%	
2	Balances with Central Banks: 2.1 With State Bank of Pakistan		0%	
3	Balances with Banks 3.1 With Scheduled Banks in Pakistan		20%	
4	Investments in: 4.1 Treasury Bills 4.2 Federal / Pakistan Investment Bonds 4.3 Other securities of Federal Government 4.4 Marketable Securities (TFCs / Mutual Funds) 4.5 Other Investments (TDRs of Banks/MFBs)		0% 0% 0% 100% 20%	
5	Loans & Advances (Less Cash margin and Govt. Securities held) 5.1 Loans guaranteed by Federal Govt./ SBP 5.2 Microcredit 5.3 Loans fully secured by mortgage of residential or commercial property 5.4 Staff loans		0% 100% 50% 0%	
6	Fixed Assets (net of accumulated depreciation)		100%	
7	Assets deducted from capital: 7.1 Intangible assets 7.2 Unconsolidated investment in subsidiary companies engaged in Microfinancing activities		0% 0%	
8	Other Assets 8.1 Advance tax 8.2 Deposits & prepayments 8.3 Accrued income on Advances 8.4 Accrued income on deposits accounts 8.5 Accrued income on investments - PIBs/T-Bills 8.6 Accrued income on investments - Others 8.7 Other receivable		0% 100% 100% 100% 0% 100% 100%	
	TOTAL			

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Annexure- B

Fit & Proper Criteria for Members of Board of Directors and President / Chief Executive Officer of Micro Finance Banks (MFBs)

The competence of the Board Members and President/CEO is critically important for success of any corporate entity generally and financial institutions, being highly leveraged outfits, particularly. The Board Members and the President/CEO of banks and financial institutions are custodians of not only the shareholders' money but also the public funds placed with them as deposits. The Microfinance Banks are formal financial institutions eligible to extend a variety of financial services to the poor including savings and deposits. The MFBs' Board Members and the President/CEO should therefore, be persons of established integrity and track record and have the necessary capacity, experience and exposure to manage the bank and public funds. The following criteria has therefore, been developed for MFBs' Board Members and the President/CEO to ensure that the skill mix of the Board is compatible with the mission, vision and objectives of the MFBs and that the President/CEO has requisite background/expertise and relevant experience to run and manage the MFBs:

1. Integrity, Honesty and Reputation

The MFBs while selecting/recommending a person as Board Member shall ensure that he/she:

- i) Has not been convicted of any criminal offence, involved in any fraud/forgery, financial crime etc.
- ii) Has not been associated with any illegal activity especially relating to banking business.
- iii) Has not been in default of payment of dues owed to any financial institution and / or default in payment of any taxes in an individual capacity or as Proprietor of a firm, Partner in a partnership firm, Director, President or Chief Executive in any private or public limited company which has defaulted in payment of its dues to financial institutions/tax authorities.
- iv) 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.
- v) Has not contravened any of the requirements and standards of regulatory system or the equivalent standards or requirements of other regulatory authorities.
- vi) Has not been involved with a company/firm whose registration/license has been revoked or cancelled or that has gone into liquidation.
- vii) Has not been debarred from being the Chief Executive, Chairman or Director of a company.

2. Experience & Qualification

This section shall apply separately for President/Chief Executive and Directors:

For President / Chief Executive of MFB:

The President/Chief Executive shall be a person having at least 10 years experience as a senior micro finance practitioner or as a senior banker, preferably below 55 years of age at the time of his appointment. The minimum qualification for President/Chief Executive shall be graduation; the MFBs however are encouraged to engage persons having professional and advanced qualifications in banking, finance, economics, information technology etc.

For members of Board of Directors of MFBs:

While selecting/recommending the Board Members, the MFBs shall ensure that their Board Members have necessary competence, qualification and experience to effectively undertake their responsibilities as Board Members. The Boards shall comprise persons having extensive experience in Micro finance, Social Intermediation, Poverty Alleviation, Banking & Finance, Micro and Small Enterprises, Information Technology etc. The appropriate skill mix may include:

- a. Micro finance Practitioner(s) having at least 5 years experience in managing and administering micro finance/ micro credit programs, social intermediation, women empowerment programs etc. and; or
- b. Development economist(s) having at least 5 years experience as an economist / program / project officer in reputed national or international firms etc. and has managed/coordinated different poverty alleviation programs/projects/research assignments and; or
- c. Micro/small entrepreneur(s) having at least 10 years experience of successfully managing an enterprise and ;or

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- d. Lawyer(s) with at least 10 years experience as an advocate in High Court or Supreme Court. He/She shall not be associated with any Micro finance Bank as legal counsel/adviser or on the payroll of a micro finance bank and; or
- e. Senior banker(s) having at least 5 years experience at senior level in credit, operations, audit, treasury etc and; or
- f. IT Professional(s) having at least 5 years experience with a reputed IT firm and /or experience of developing/administering/managing IT systems in banks/micro finance banks/other financial institutions and; or
- g. Finance professional(s)/Business/Management Consultant(s) having at least 5 years post qualification experience with reputed audit/business consulting firms etc.

The above list however, is not exhaustive and persons from other professions and fields, business and industrial concerns, academia etc. may also be on MFB Board provided the overall skill mix of the Board remains compatible with the objectives and functions of the MFB.

The minimum qualification for Board Members shall **preferably** be graduation or equivalent. However, for persons having extensive and successful experience in micro finance, poverty alleviation, social mobilization and development, women development, micro entrepreneur, business and industrial concerns etc. the minimum qualification limit may be relaxed.

3. Size and Composition of the Board

The MFBs Board of Directors shall have:

- A minimum of five members in case of un-listed MFBs
- A minimum of seven members in case of listed MFBs.
- Not more than 25% of the members shall be from the same family.

The MFBs, while deciding the composition of the Board of Directors, shall ensure that the skill mix of the Board is compatible with the objectives, plans and functions of the MFB and that the Board would be in a position to give direction to the executive management and steer the MFB in the desired direction. In case the shareholder directors have similar experience, qualification etc, non-shareholder/professional directors, which could add to the skill mix of the board, may be selected / nominated. Further the MFBs are encouraged to have adequate female representation on their Board of Directors.

4. Track Record

- i) The person selected 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 and
- ii) Has not been terminated or dismissed in the capacity of employee or Director/Chairman of a company.

5. Conflict of Interest

- i) The Directors on the MFBs' Board shall not be Director of any other Micro finance Bank. He/She shall also not act as consultant, adviser or an employee of any other MFB.
- ii) He/She shall avoid conflict of interest in his/her activities with, and commitments to, other organizations.

Others:

No member/office bearer of any political party or member of Senate, National/Provincial assembly/assemblies shall be appointed / recommended for appointment as Member of Board of Director and/or President/Chief Executive Officer of MFBs.

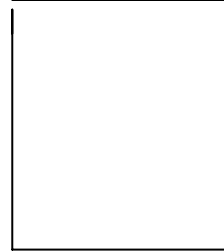
Prior Clearance

The MFBs shall submit information about the Board Members and/or President/Chief Executive Officer to State Bank, as per the Proforma enclosed as Annexure-C, for clearance before selection/appointment of Directors and President/Chief Executive Officer.

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ANNEXURE-C

PROFORMA



1. Full Name _____
2. If You Have Changed Your Name, State Previous Name and Reasons for Change _____

3. Parents and Spouse's Names
 Father's Name: _____
 Mother's Name: _____
 Spouse's Name: _____
4. Date & Place of Birth _____
5. Religion _____:
6. N.I.C. Number: Old _____
 New _____
7. N.T.N. _____
8. Education _____
9. Relationship with other Sponsor Directors _____
10. Status of Directorship (shareholder or nominee) _____
11. Subscribed Amount _____
12. Personal Net Worth (Certified copy of Wealth Statement may be enclosed) _____
13. Occupation / Profession / Trade _____
14. Present Designation, Department and official Address

15. Telephone Numbers: Res. _____ Off: _____ Mobile: _____
16. Appointments Held During the Last Five Years (With Dates):

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17. List of Companies / firms and their bankers in which sponsor directors and their family members viz. spouses, children and parents serve (d) as directors, chief executive, partner, proprietor or major shareholders holding 5% or more shares as per following format:

Name of the Sponsors Director and his / her family Members	Occupation/ Profession/ Trade	National Tax No.	NIC & Passport No.	Name of Associated Company / Firm position held & % of Shareholding	Name of the Financial Institution along with the name of the branch (account number) with which firms / companies (as per column 5) have dealings with:
1	2	3	4	5	6

National Tax Number of the Corporate Bodies.	Nature of Business	Asset Base as reflected in the latest Audited Accounts of the Corporate Bodies	Dividend declare in the immediately preceding three years
7	8	9	10

18. Declaration certificate pronouncing integrity, honesty, reputation and track record of the director as per guidelines given in Annexure –B

19. Present Residential Address: _____

20. Permanent Residential Address: _____

21. Names & Addresses of Three Respectable Persons (Not Relatives) Who Have Been Closely Acquainted with You during last five years _____

Signature

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ANNEXURE-D

MICROFINANCE BANK

***Bi-Weekly Statement of Affairs as At Close Of Business on ----
(Saturday)**

		Rupees in '000
<u>LIABILITIES:</u>		<u>AMOUNT</u>
1) Demand Liabilities		
a) Deposits (General)	XXXX	
b) Deposits From Banks & Financial Institutions	XXXX	
c) Borrowings From Banks And Financial Institutions (Other Than Call Money)	XXXX	
d) Other Demand Liabilities	<u>XXXX</u>	XXXX
2) Time Liabilities		
a) Deposits (General)	XXXX	
b) Deposits From Banks And Financial Institutions	XXXX	
c) Borrowings From Banks And Financial Institutions	XXXX	
d) Other Time Liabilities	<u>XXXX</u>	XXXX
3) Borrowings From The State Bank Of Pakistan		
a) Against Promissory Notes	XXXX	
b) Against Approved Securities	XXXX	
c) Other Borrowings	<u>XXXX</u>	XXXX
4) Money At Call And Short Notice	XXXX	
5) Borrowing from Banks Abroad	XXXX	
6) Borrowings From Government of Pakistan	XXXX	
7) Capital (Paid Up)/Capital Fund And Reserves	XXXX	
8) Other Liabilities (Excluding Contra Items)	<u>XXXX</u>	XXXX
9) Total Liabilities		<u>XXXX</u>

Assets:

1) Cash		XXXX
2) Balance With		
a) State Bank of Pakistan	XXXX	
b) National Bank Of Pakistan	XXXX	
c) Other Financial Institutions	<u>XXXX</u>	XXXX
3) Money At Call And Short Notice		XXXX
4) Advances		XXXX
5) Bills Purchased And Discounted		XXXX
6) Investment In Securities And Shares		XXXX
a. PIBs	XXXX	
b. T-Bills	XXXX	
Other Approved Securities	XXXX	
d. Shares	XXXX	
e. Others (Specify)	<u>XXXX</u>	XXXX
7) Other Assets (Excluding Contra Items)		XXXX
8) Total Assets		<u>XXXX</u>

Note: The Unencumbered approved securities held for liquidity purposes were:

a. PIBs	XXXX
b. TBs	XXXX
c. Others (specify)	<u>XXXX</u>
d. Total	<u>XXXX</u>

**Authorized Signature
Name and Designation**

* To be prepared once in every two weeks as at close of business on alternate Saturdays

Prudential Regulations for Microfinance Banks (MFBs)

ANNEXURE-E

MICROFINANCE BANK/INSTITUTION

Quarterly Report Of Condition
For The Quarter Ended _____

BALANCE SHEET

		<u>AS ON CURRENT QUARTER</u>	<u>Rupees in '000 AS ON CORRESPONDING QUARTER OF PREVIOUS YEAR</u>
<u>ASSETS</u>			
Cash And Balances With SBP And NBP		xxxxxxx	
Balances With Other Banks/NBFIs/MFBs		xxxxxxx	
Money At Call And Short Notice		xxxxxxx	
Investments - Net Of Provisions	1	xxxxxxx	
Advances - Net Of Provisions	2	xxxxxxx	
Operating Fixed Assets	3	xxxxxxx	
Other Assets	4	xxxxxxx	
Total Assets		xxxxxxx	xxxxxxx
<u>Liabilities</u>			
Deposits	5	xxxxxxx	
Borrowings	6	xxxxxxx	
Bills Payable		xxxxxxx	
Subordinated Debt		xxxxxxx	
Other Liabilities	7	xxxxxxx	
Deferred Liabilities	8	xxxxxxx	
Total Liabilities		xxxxxxx	xxxxxxx
Net Assets		xxxxxxx	xxxxxxx
<u>Represented By</u>			
<i>Paid-Up Capital</i>		xxxxxxx	xxxxxxx
<i>Statutory & General Reserves</i>		xxxxxxx	
<i>Unappropriated Profit</i>		xxxxxxx	
<i>Surplus On Revaluation Of Assets</i>		xxxxxxx	xxxxxxx
Total Capital (Sub-Total:I+II)		xxxxxxx	xxxxxxx
Memorandum / Off-Balance Sheet Items:			
Bills For Collection		xxxxxxx	xxxxxxx
Acceptances, Endorsements And Other Obligations		xxxxxxx	xxxxxxx
Contingent Liabilities		xxxxxxx	xxxxxxx
Total Memorandum / Off-Balance Sheet Items		xxxxxxx	xxxxxxx

The annexed notes form an integral part of this Report.

AUTHORISED SIGNATORY
(Name and Designation)

AUTHORISED SIGNATORY
(Name and Designation)

Prudential Regulations for Microfinance Banks (MFBs)

MICROFINANCE BANK Profit & Loss Account

		For The Current Quarter	Year To Date
-----Rupees In '000-----			
--			
Mark Up/Interest/Discount /Return Earned	9	xxxxxxx	xxxxxxx
Less: Cost / Return On Deposits, Borrowings Etc.	10	(xxxxxxx)	(xxxxxxx)
Net		xxxxxxx	xxxxxxx
Non-Interest Income:			
Fees & Commission		xxxxxxx	xxxx
Dividend Income		xxxxxxx	xxxx
Other Income (To be specified)		xxxxxxx	xxxx
Plus		xxxxxxx	xxxxxxx
Sub Total		xxxxxxx	xxxxxxx
Operating & Non-Interest Expenses:			
Administrative Expenses	11	xxxxxxx	xxxxxxx
Provisions Against Non-Performing Loans		xxxxxxx	xxxxxxx
Provision For Diminution In Value Investments		xxxxxxx	xxxxx
Provision Against Other Assets		xxxxxxx	xxxxxxx
Debts Written Off Directly		xxxxxxx	xxxxxxx
Other Expenses		(xxxxxxx)	(xxxxxxx)
Less		(xxxxxxx)	(xxxxxxx)
Sub Total		xxxxxxx	xxxxxxx
Extra Ordinary / Unusual Items		xxxxxxx	xxxxxxx
Profit Before Taxation	Sub Total	xxxxxxx	xxxxxxx
Taxation - Current		xxxxxxx	xxxx
- Deferred		xxxxxxx	xxxxxxx
Less		(xxxxxxx)	(xxxxxxx)
Profit After Taxation		xxxxxxx	xxxxxxx
APPROPRIATIONS:			
Statutory Reserves		xxxxxxx	xxxx
Proposed Dividend		xxxxxxx	xxxx
Other Appropriations (To Be Specified)		xxxxxxx	xxxx
Total Appropriations	Less	(xxxxxxx)	(xxxxxxx)
Un-Appropriated Profit Carried Forward		<u>xxxxxxx</u>	<u>xxxxxxx</u>

The annexed notes form an integral part of this Report.

AUTHORIZED SIGNATORY
(Name and Designation)

AUTHORIZED SIGNATORY
(Name and Designation)

Prudential Regulations for Microfinance Banks (MFBs)

Notes To The Quarterly Report Of Condition As On The Quarter Ended _____

-----Rupees in '000 ----

1. INVESTMENT:

Book Value	Estimated Market Value	Provisions held	Investment net of Provision
------------	------------------------	-----------------	-----------------------------

Approved Securities:

- Pakistan Investment Bonds
- Market Treasury Bills
- Others (to be specified)

Investments in subsidiary companies and associated undertakings

Fully paid up ordinary shares
 -listed companies
 -unlisted companies

Bonds, Participation Term Certificates & Term Finance Certificates

Other Investment (to be specified)

Total

_____	_____	_____	_____
_____	_____	_____	_____

2. ADVANCES :

Advances (Net of Provisions)

Gross Advances

LESS: Provisions held:

- Specific
- General

Sub-Total

Advances (net of provisions)

Prudential Regulations for Microfinance Banks (MFBs)

2.1 Loan Type wise Break-Up Of Current And Non Performing Loans

Rupees In '000

Loan Type	Total Outstanding Portfolio	Current	NPLs		
			< 30 days	30 < 90 days	90 < 180 days
		Current	Substandard	Doubtful	Loss
Agri-input					
Livestock					
Micro-					
Others					
Total					

2.2 Summary of Disbursements and Recoveries Made During the Quarter

	At Beginning of the Quarter		During the Quarter			At Quarter end	
	No. of Borrowers	Outstanding Advances	Recoverable	Recovery	Disbursement	No. of Borrowers	Outstanding Advances
Male							
Female							
Total							

3. SUMMARY OF OPERATING FIXED ASSETS

	Cost	Accumulated Depreciation	Book Value
Vehicles			
Computer & Equipment			
Furniture & Fixture			
Others			
Total			

4. OTHER ASSETS

Income/Mark-up Accrued in Local Currency
 Income/Mark-up Accrued in Foreign Currency
 Advances, Deposits, Advance Rent and Other Prepayments
 Advance Taxation (Payments Less Provisions)
 Branch Adjustment Account
 Suspense Account
 Deferred Cost
 Others (To be specified, if material) _____

Less: Provisions held Against Classified Other Assets _____

Other Assets (Net of Provisions) _____

5. DEPOSITS

	<u>Number Of Accounts</u>	<u>Amount</u>
Fixed Deposits		
Saving Deposits		
Current Deposits		
Others (To Be Specified)	_____	_____

Total _____

Prudential Regulations for Microfinance Banks (MFBs)

In '000 Rupees

5.1	PARTICULARS OF DEPOSITS BY OWNERSHIP	-	<u>Number Of Accounts</u>	<u>Amount</u>
	1) Individual Depositors			
	a) Community /Village Organisations/ Urban Groups etc. Members			
	b) Others			
	2) Institutions / Depositors / Firms etc.			
	a) Corporation/Firm etc.			
	b) Banks & Financial Institutions			
	Total		_____	_____
			_____	_____
6.	<u>BORROWINGS</u>			
	Borrowings from Banks/Financial Institutions in Pakistan			
	Borrowings from Banks/Financial Institutions outside Pakistan			
	Borrowings from Govt. of Pakistan			
	Borrowings from SBP			
	Others			_____

7.	<u>OTHER LIABILITIES :</u>			
	Mark-Up/Return/Interest payable on Deposits & Borrowings			
	Unearned Commission and Income on Bills Discounted Accrued Expenses			
	Current Taxation (Provisions less payments)			
	Proposed /Unpaid/Unclaimed Dividends Branch Adjustment Account			
	Others(to be specified, if material)			_____

8.	<u>DEFERRED LIABILITIES</u>			
	Deferred Credits arising due to (To be specified)			
	Deferred Debits arising in respect of (To be specified)			_____

9.	<u>MARK UP / INTEREST AND DISCOUNT AND /OR RETURN EARNED</u>			
	Interest / Mark-Up On Advances			
	Interest / Mark-Up On Investments In Government Securities			
	Interest / Mark-Up On Deposits Accounts / Placements With Other Banks/Financial Institution			
	Others			_____

Prudential Regulations for Microfinance Banks (MFBs)

10. COST / RETURN ON DEPOSITS, BORROWINGS ETC.

Deposits
Borrowings
Others (To be specified, if material) _____

11. ADMINISTRATIVE EXPENSES :

Staff Salaries and Benefits
Premises-Rent etc. Traveling
Expense
Vehicle Running & Maintenance
Depreciation
Training etc.
Stationary
Advertisement
Staff Retirement Benefits
Others _____

12. AVERAGE ASSETS

For The Quarter Rs. _____.
Represents The Average Of The Total Assets As Of The
Close Of Business On Each Saturday During The Quarter.

13. NUMBER OF EMPLOYEES:

	Credit /Sales Staff	Banking/Support	Total
Permanent			
Temporary/ On Contractual Basis			
Daily Wagers			
Others (Please Specify)			
Total No. of Employees			

14. NUMBER OF BRANCHES :

Branches At The Beginning Of The Quarter
Add :Opened During The Quarter
Less: Closed/ Merged During The Quarter _____
Total Branches At The End Of The Quarter _____

Prudential Regulations for Microfinance Banks (MFBs)

15. Schedule Of Maturity Distribution Of Market Rate Assets & Liabilities

As On The Quarter Ended _____

-----Rupees In '000---

	UPTO ONE MONTH	OVER ONE MONTH UPTO 6 MONTHS	OVER 6 MONTHS UPTO 1 YEAR	OVER ONE YEAR
<u>Market Rate Assets</u>				
Advances				
Investments				
Other Earning Assets				
Total Market Rate Assets				
Other Non-Earning Assets				
Total Assets				
<u>Market Rate Liabilities</u>				
Large Time Deposits Above 100,000 Rupees				
All Other Time Deposits(Includes Fixed Rate Deposits)				
Other Cost Bearing Deposits				
Borrowings				
<i>Other Cost Bearing Liabilities</i>				
Total Market Rate Liabilities				
Other Non-Cost Bearing Liabilities				
Total Liabilities				

NOTE: Some assets of a MFB do not have a contractual maturity date. The period in which these assets are assumed to mature should be taken as the expected date on which the assets will be realized.

Prudential Regulations for Microfinance Banks (MFBs)

ANNEXURE-F

DECLARATION OF FIDELITY AND SECRECY

I, **(insert name)** on becoming [**President/ Chairman of the Board/ Director on the Board/auditor/staff**] of the **(insert name of Microfinance Bank)** in terms of Section 26-A of the Microfinance Ordinance, 2001 do hereby solemnly & sincerely confirm/declare that I shall observe strict fidelity, secrecy and usage customary among bankers and all matters relating thereto and in particular shall not divulge or communicate any information relating to the affairs of its customers, which may come to my knowledge in discharging my duties directly or indirectly, except in circumstances in which it is in accordance with law, practice and usage customary among bankers.

Dated: Signature: _____ **Designation:** _____

Prudential Regulations for Microfinance Banks (MFBs)

Annexure–G

UNDERTAKING

I ----- S/O, D/O, W/O ----- holder of CNIC -----
-----, undertake that the detail of my existing exposure from the “Entire Banking & Microfinance Sector” as on----- is as under:

Details of Loans:

Sr. #	Name of the MFB/MFI/Bank /other financial Institutions	Type of Loan	Outstanding Amount
Total Exposure			

Signature: _____

Name of Applicant: _____

CNIC # _____

Date: _____