



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-ordinated 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-ordinated 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-ordinated 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.



Name of Microfinance Bank

Table A

Capital Adequacy Ratio as on xxxxxxxxx

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 Reserves 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)	xxx
	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)	xxx
	1.10 Eligible Core Capital (1.6-1.9)	xxx
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	xxx
	2.2 Revaluation reserves - eligible upto 50%	xxx
	2.3 Sub-ordinated debt (upto 50% of core capital)	xxx
	2.4 Sub-Total (2.1 to 2.3)	xxx
3	<u>Total Capital (1.10+2.4)</u>	xxx
4	<u>Capital Adequacy Ratio</u>	
	4.1 Risk Weighted Assets (as per Table B)	xxx
	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 / 4.1 x 100)	xxx



Table B

CALCULATION OF RISK-WEIGHTED ASSETS

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		0%	
	4.2 Federal/Pakistan Investment Bonds		0%	
	4.3 Other securities of Federal Government		0%	
	4.4 Marketable Securities (TFC / Mutual Funds)		100%	
	4.5 Other Investments (including TDRs of Banks/MFBs)		20%	
5	Loans & Advances (Less Cash margin and Govt. Securities held)			
	5.1 Loans guaranteed by Federal Govt. / SBP		0%	
	5.2 Microcredit		100%	
	5.3 Loans fully secured by mortgage of residential or commercial property		50%	
	5.4 Staff Loans		0%	
6	Fixed Assets (net of accumulated depreciation)		100%	
7	Assets deducted from capital:			
	7.1 Intangible assets		0%	
	7.2 Unconsolidated investment in subsidiary companies engaged in Microfinancing activities		0%	
8	Other Assets			
	8.1 Advance tax		0%	
	8.2 Deposits & prepayments		100%	
	8.3 Accrued income on Advances		100%	
	8.4 Accrued income on deposits accounts		100%	
	8.5 Accrued income on investments - PIBs / Tbills		0%	
	8.6 Accrued income on investments - Others		100%	
	8.7 Other receivable		100%	
	TOTAL			