ANNEXURE-IV
PRs FOR CORPORATE AND COMMERCIAL BANKING

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 30% of the Forced Sale Value (FSV) of pledged stocks and mortgaged residential and commercial properties (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 30% of the Forced Sale Value (FSV) of pledged stocks and mortgaged residential and commercial properties (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 30% of the Forced Sale Value (FSV) of pledged stocks and mortgaged residential and commercial properties (see Note 2 below). Benefit of FSV against NPLs shall not be available after 3 years from the date of classification of the Loan/Advance.
	(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-V to these Regulations.*

Attachment 'B' to BSD Circular
No. 02 dated January 27, 2009

ANNEXURE-III
PRs FOR SME FINANCING

GUIDELINES IN THE MATTER OF CLASSIFICATION AND PROVISIONING FOR ASSETS (REGULATION R-11)

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

CLASSIFICATION (1)	DETERMINANT (2)	TREATMENT OF INCOME (3)	PROVISIONS TO BE MADE (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 30% of the Forced Sale Value (FSV) of pledged stocks and mortgaged residential and commercial properties (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 30% of the Forced Sale Value (FSV) of pledged stocks and mortgaged residential and commercial properties (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 30% of the Forced Sale Value (FSV) of pledged stocks and mortgaged residential and commercial properties (see Note 2 below). Benefit of FSV against NPLs shall not be available after 3 years from the date of classification of the Loan/Advance.
	(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-IV to these Regulations.*

GUIDELINES IN THE MATTER OF CLASSIFICATION AND PROVISIONING FOR ASSETS (REGULATION R-22)

The mortgage loans shall be classified and provided for in the following manners:

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 mortgaged properties to the extent of 50% of such FSV.
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 Forced Sale Value (FSV) of mortgaged properties to the extent of 50% of such FSV.
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 Forced Sale Value (FSV) of mortgaged properties to the extent of 50% of such FSV for first and second year and 30% of FSV for third year from the date of classification. Benefit of FSV against NPLs shall not be available after 3 years from the date of classification of loan.

** These specific provisions will be in addition to general reserve maintained under Regulation R-4*

Attachment 'D' to BSD Circular
No. 02 dated January 27, 2009

ANNEXURE-V
PRs FOR CORPORATE AND COMMERCIAL BANKING

UNIFORM CRITERIA FOR DETERMINING THE VALUE OF PLEDGED STOCK AND MORTGAGED RESIDENTIAL & COMMERCIAL PROPERTIES (REGULATION R-8)

Only liquid assets, pledged stock, and residential & commercial 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 bank / DFI. The aforesaid assets having pari-passu charge shall be considered on proportionate basis of outstanding amount.

2. Hypothecated assets, industrial land and building together with plant and machinery thereon, and assets with second charge and floating charge shall not be considered for taking the benefit for provisioning.

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) for this purpose. PBA shall lay down the minimum eligibility criteria with the prior approval of the State Bank of Pakistan for placement of evaluators on the panel to be maintained by it. The evaluator while assigning any values to the pledged stock and mortgaged residential and commercial 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 and mortgaged residential and commercial property so determined by the evaluators must have to be 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 forced sales 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 valuation; and, at the time of classification, the Full scope valuation shall not be more than one year old.

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

- Desktop Evaluation is defined as "an Interim Brief Review of Full-scope Evaluation, 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 loans exceed Rs 100 million, the Desktop valuation will be done by the same evaluator, who had conducted the full-scope

evaluation (the evaluator should be on the approved panel of the PBA) whereas for loans below this threshold, the Desktop evaluation may be done by the banks / DFIs themselves or by the approved evaluators. For conducting Desktop evaluation, the evaluators will pay a short visit to the bank / DFI and the borrower's site. The bank's / DFI's responsibility in this respect will be to ensure that the evaluation is contacted for conducting Desktop Evaluation, and will provide all necessary information to the evaluators, which are materially important for the interim review (Desktop Evaluation).

- The Desktop Evaluation shall be used for determining any additional provisioning requirement and thus the same shall not result in reducing the provisioning requirement, assessed on the basis of full-scope evaluation.
- In cases where the evaluators are not allowed by the borrowers to enter in their premises, the full-scope evaluation, conducted as such, will not be accepted for provisioning benefit.

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

7. The categories of pledged stock and mortgaged residential and commercial property to be considered for valuation along with discounting factors to be applied would be as under (no other assets shall be taken into consideration):

a) <u>Liquid Assets</u>:

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 these have been routed through Central Depository Company of Pakistan (CDC), otherwise these will not be admissible for deduction as liquid assets while determining required provisions.

b) <u>Mortgaged residential and commercial property:</u>

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

c) <u>Pledged Stocks:</u>

In case of pledged stocks of perishable and non-perishable goods, forced sale value should be provided by evaluators, which 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 when these are expected to be of no value.

Attachment 'E' to BSD Circular
No. 02 dated January 27, 2009

ANNEXURE-IV
PRs FOR SME FINANCING

UNIFORM CRITERIA FOR DETERMINING THE VALUE OF PLEDGED STOCK AND MORTGAGED RESIDENTIAL & COMMERCIAL PROPERTIES (REGULATION R-11)

Only liquid assets, pledged stock, and residential & commercial 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 bank / DFI. The aforesaid assets having pari-passu charge shall be considered on proportionate basis of outstanding amount.

2. Hypothecated assets, industrial land and building together with plant and machinery thereon, and assets with second charge and floating charge shall not be considered for taking the benefit for provisioning

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) for this purpose. PBA shall lay down the minimum eligibility criteria with the prior approval of the State Bank of Pakistan for placement of evaluators on the panel to be maintained by it. The evaluator while assigning any values to the pledged stock and mortgaged residential and commercial 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 and mortgaged residential and commercial property so determined by the evaluators must have to be 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 forced sales 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 valuation; and, at the time of classification, the Full scope valuation shall not be more than one year old.

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

- Desktop Evaluation is defined as "an Interim Brief Review of Full-scope Evaluation, 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 loans exceed Rs 100 million, the Desktop valuation will be done by the same evaluator, who had conducted the full-scope evaluation (the evaluator should be on the approved panel of the PBA) whereas for loans below this threshold, the Desktop

evaluation may be done by the banks / DFIs themselves or by the approved evaluators. For conducting Desktop evaluation, the evaluators will pay a short visit to the bank / DFI and the borrower's site. The bank's / DFI's responsibility in this respect will be to ensure that the evaluation is contacted for conducting Desktop Evaluation, and will provide all necessary information to the evaluators, which are materially important for the interim review (Desktop Evaluation).

- The Desktop Evaluation shall be used for determining any additional provisioning requirement and thus the same shall not result in reducing the provisioning requirement, assessed on the basis of full-scope evaluation.
- In cases where the evaluators are not allowed by the borrowers to enter in their premises, the full-scope evaluation, conducted as such, will not be accepted for provisioning benefit.

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

7. The categories of pledged stock and mortgaged residential and commercial property to be considered for valuation along with discounting factors to be applied would be as under (no other assets shall be taken into consideration):

a) <u>Liquid Assets</u>:
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 these have been routed through Central Depository Company of Pakistan (CDC), otherwise these will not be admissible for deduction as liquid assets while determining required provisions.

b) <u>Mortgaged residential and commercial property:</u>
Valuation of residential and commercial property (excluding industrial land and building) would be accepted as determined by the evaluators in accordance with the criteria given above.

c) <u>Pledged Stocks:</u>
In case of pledged stocks of perishable and non-perishable goods, forced sale value should be provided by evaluators, which 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 when these are expected to be of no value.