

Para 4 of Regulation-8 of Prudential Regulations for Corporate & Commercial Banking

4. Banks/DFIs shall classify their loans and advances portfolio and make provisions in accordance with the criteria prescribed above, keeping in view the following:
- a. Banks/DFIs are allowed to take the benefit of 40% of Forced Sale Value (FSV) of the pledged stocks and mortgaged residential, commercial and industrial properties (where building is constructed) held as collateral against NPLs for three years from the date of classification for calculating provisioning requirement. However the banks/ DFIs can avail benefit of 40% of FSV of mortgaged residential, commercial and industrial land (*open plot, and where building is constructed separate valuation of land must be available*) held as collateral against NPLs for four years from the date of classification for calculating provisioning requirement. **This benefit would be available in such cases where FSV valuation of land is not more than four years old.** For the purpose of determination of FSV, Annexure-V of PR for Corporate/Commercial Banking shall be followed.
 - b. Banks/DFIs may avail the above benefit of FSV subject to compliance with the following conditions:
 - i) The additional impact on profitability arising from availing the benefit of FSV against the pledged stocks and mortgaged residential, commercial and industrial properties (land and building only) shall not be available for payment of cash or stock dividend.
 - ii) Heads of Credit of respective banks/DFIs shall ensure that FSV used for taking benefit of provisioning is determined accurately as per guidelines contained in PRs and is reflective of market conditions under forced sale situations; and
 - iii) Party-wise details of all such cases where banks/DFIs have availed the benefit of FSV shall be maintained for verification by State Bank's inspection teams during regular/special inspection.
 - c. Any misuse of FSV benefit detected during regular/special inspection of State Bank shall attract strict punitive action under the relevant provisions of the Banking Companies Ordinance, 1962. Furthermore, State Bank may also withdraw the benefit of FSV from banks/DFIs found involved in its misuse.

Para 4 of Regulation-11 (Classification and Provisioning for Assets, Loans / Advances), of Prudential Regulations for SME Financing)

4. Banks/DFIs shall classify their loans and advances portfolio and make provisions in accordance with the criteria prescribed above, keeping in view the following:

- a. Banks/DFIs are allowed to take the benefit of 40% of Forced Sale Value (FSV) of the pledged stocks and mortgaged residential, commercial and industrial properties (building only) held as collateral against NPLs for three years from the date of classification for calculating provisioning requirement. However the banks/ DFIs can avail benefit of 40% of FSV of mortgaged residential, commercial and industrial land (*open plot, and where building is constructed separate valuation of land must be available*) held as collateral against NPLs for four years from the date of classification for calculating provisioning requirement. This benefit would be available in such cases where FSV valuation of land is not more than four years old. For the purpose of determination of FSV, Annexure-IV of PR for SME Financing shall be followed.
- b. Banks/DFIs may avail the above benefit of FSV subject to compliance with the following conditions:
 - i) The additional impact on profitability arising from availing the benefit of FSV against the pledged stocks and mortgaged residential, commercial and industrial properties shall not be available for payment of cash or stock dividend.
 - ii) Heads of Credit of respective banks/DFIs shall ensure that FSV used for taking benefit of provisioning is determined accurately as per guidelines contained in PRs and is reflective of market conditions under forced sale situations; and
 - iii) Party-wise details of all such cases where banks/DFIs have availed the benefit of FSV shall be maintained for verification by State Bank's inspection teams during regular/special inspection.
- c. Any misuse of FSV benefit detected during regular/special inspection of State Bank shall attract strict punitive action under the relevant provisions of the Banking Companies Ordinance, 1962. Furthermore, State Bank may also withdraw the benefit of FSV from banks/DFIs found involved in its misuse.

PRs FOR CONSUMER FINANCING**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:

CATEGORY OF 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 40% 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. However the 40% benefit of FSV of land (open plot and separate valuation of land if building is constructed) shall be available for 4 years from the date of classification of loan.

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

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 CATEGORY	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 40% of the Forced Sale Value (FSV) of pledged stocks and mortgaged residential, commercial and industrial 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 40% of the Forced Sale Value (FSV) of pledged stocks and mortgaged residential, commercial and industrial 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 40% of the Forced Sale Value (FSV) of pledged stocks and mortgaged residential, commercial and industrial 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. However the 40% benefit of FSV of land (open plot and separate valuation of Land if building is constructed) shall be available for 4 years from the date of classification of loan.
	(b) Where Trade Bills (Import/ Export or Inland Bills) are not paid/adjusted within 180 days of the due date.	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.*

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)

CATEGORY OF 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 40% of the Forced Sale Value (FSV) of pledged stocks and mortgaged 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 40% of the Forced Sale Value (FSV) of pledged stocks and mortgaged 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 40% of the Forced Sale Value (FSV) of pledged stocks and mortgaged 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. However the 40% benefit of FSV of land (open plot and separate valuation of land if building is constructed) shall be available for 4 years from the date of classification of loan.
	(b) Where Trade Bills (Import/ Export or Inland Bills) are not paid/adjusted within 180 days of the due date.	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.*

ANNEXURE-V

PRs FOR CORPORATE AND COMMERCIAL BANKING

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

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

2. Plant and machinery, hypothecated assets, and assets with second charge & 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 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 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 (Fourth year only for open plot of land, and where building is constructed, separate valuation of land). Full scope valuation shall be valid for three years (four year for land only) 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 evaluator 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 of Pakistan 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 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) Liquid Assets:

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 such share 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) Mortgaged Property:

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

c) Pledged Stocks:

In case of pledged stocks of perishable and non-perishable goods, forced sale value should be provided by evaluators, and such evaluation 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.

ANNEXURE-IV
PRs FOR SME FINANCING

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

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2. Plant and machinery, hypothecated assets, and assets with second charge & 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 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 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).

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