



PRUDENTIAL REGULATIONS FOR AGRICULTURE FINANCING

**BANKING POLICY
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STATE BANK OF PAKISTAN**

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PREFACE

The importance of agriculture cannot be overemphasized for the economy of Pakistan. Agriculture constitutes about 23% of the GDP of Pakistan and accounts for 42.1% of the total employed labour force in Pakistan. By serving as the base sector for major industries like textile and sugar etc., the agriculture sector stands out as the largest source of foreign exchange earnings. In view of its wide-ranging backward and forward linkages, agriculture in Pakistan assumes a vital role in overall growth of the economy. Thus, a progressive and well developed agriculture sector can play a pivotal role in accelerating the overall pace of development of the country and alleviating poverty.

It is also a fact that the state of development of Pakistan's Agriculture sector lags behind many developing countries, including our neighboring country. While there are a number of steps, which can be taken to bring our agriculture sector at par with other countries, one critical factor is the sufficient availability of credit for agriculture.

State Bank of Pakistan, in consultation with commercial banks/DFIs has been endeavoring for the past many decades to ensure the flow of sufficient funds to the agriculture sector. While substantial progress has been made in this respect, there is still a lot of room for further improvement. With the expansion in the size of the agriculture sector, the financing needs of the sector are also increasing and there are significant opportunities for banks/DFIs to deploy their funds in a remunerative manner. The new and innovative financial products for financing the agriculture sector can create a win-win situation, whereby, on one hand, the financing needs of agriculture sector can be met and, on the other hand, banks/DFIs can earn a reasonable rate of return on their funds.

State Bank of Pakistan is continuously working to ensure that its regulatory framework for banks/DFIs matches the changes taking place in the market and is conducive for the development of new financial products and helps banks/DFIs to optimally utilize their resources for maximizing the benefits to the banking sector and different segments of the society and economy. While SBP supervised Agriculture Loans Schemes have been very useful in channelizing the bank financing to agriculture sector, it was felt that a separate set of Prudential Regulations for Agriculture Financing is needed to provide a broader regulatory framework to the banks/DFIs, within which banks/DFIs could be able to develop their own financing schemes/products for financing the agriculture sector.

The Prudential Regulations for Agriculture Financing may be considered only as the minimum standards and the banks/DFIs should take adequate measures to ensure that agricultural financing is undertaken in a prudent manner. In this respect, they are encouraged to designate suitable staff for this purpose, who are well qualified in this field and properly trained. The banks/DFIs should put in place an appropriate management information system to monitor the quality of agricultural finance portfolio on a continuous basis and take appropriate decisions at the right times. The banks/DFIs are also encouraged to diversify their agricultural finance portfolio in terms of geographical areas, types of financing, etc. to avoid the risks of concentration of credit.

The valuation of security in agricultural financing is a complicated and specialized area for which banks/DFIs need to either engage external expertise or impart

sufficient training to the concerned staff. While the margin requirements have generally been withdrawn by State Bank, and they are also not being prescribed under these Prudential Regulations, the banks/DFIs are encouraged to determine suitable margin requirements in their agriculture credit policies, keeping in view the quality and other features of the collateral.

Banks/DFIs are encouraged to extend agricultural financing on the basis of future cash flows instead of relying solely on the collateral. Standard cash flows can be estimated for different crops in different geographical areas and these cash flows can then be adjusted for specific borrowers by trained credit officers of the banks/DFIs, keeping in view the quality of land, efficiency of the individual farmers, etc. This will not only facilitate expeditious decision making, but will also reduce subjectivity in the process of decision making.

Keeping in view the national importance of agriculture sector, State Bank expects banks/DFIs to take extra care in facilitating their borrowers. For better understanding of their customers, banks/DFIs are encouraged to translate their application forms, check lists of all required documents and brochures in Urdu and other regional languages.

State Bank of Pakistan will, as always, keep a close liaison with all the stakeholders and will modify and update these Prudential Regulations, whenever necessary.

SYED IRFAN ALI
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Part - A

DEFINITIONS

1. **Agricultural Financing** means the following:
 - (i) **Farm Credit**, which includes:
 - (a) Production Loans for inputs like seeds, fertilizers, pesticides, etc. Production Loans also include working capital finance to meet expenses of various nature attributable to farming.
 - (b) Farm Development Finance (including finance for improvement of agricultural land, orchards, etc.) and construction of Godowns, etc. for storage of seed, raw agriculture/farm produce.
 - (c) Finance for the purchase of agricultural machinery and equipment like tractors, threshers, etc.
 - (d) Credit Card (including Kissan Card) holders are eligible to use their cards for the purposes of Agricultural Financing.
 - (e) Non-fund based facility (letter of Guarantee/SBLC & Letter of Credit etc.) for procurement/import of agricultural supplies etc by corporate & non corporate farmers.
 - (ii) **Non-farm credit**, which include Financing for Livestock viz, Dairy, Poultry and fisheries
 - (iii) Agriculture Financing shall also cover those items eligible under "Methodology Report for Estimation of Agriculture Credit" or any other item approved by SBP/ACAC (Agriculture Credit Advisory Committee) from time to time.
 - (iv) Agriculture Financing shall not include loans to traders and intermediaries engaged in trading/processing of agriculture commodities. Such lending would be covered under Prudential Regulations for Corporate/ Commercial Banking or SME Financing. However, agricultural financing can be extended to entities (including corporate farms, partnerships and individuals) engaged in farming activity as well as processing, packaging and marketing of mainly their own agricultural produce, provided 75% of the agriculture produce being processed, packaged and marketed should be produced by the above-mentioned entities themselves.
2. **Agriculture Pass Book** means a document which confirms land ownership of the farmers and it is issued by the concerned official from Revenue Records of the Provincial Governments/District/City Governments. It contains all revenue records and gives details of Ownership of Land with address, exact location of the land, Khewat, Khatooni & Khasra Number, Produce Index Units (PIU) Value & Market Value of the land, mutation / transferred, loan obtained/repaid, the name of mortgagee etc. All entries in the said Pass-book are made & authenticated as per provisions contained in "Agriculture, Commercial and Industrial Purposes Act 1973" by the competent authority of the Revenue Department.
3. **Bank** means a banking company as defined in the Banking Companies Ordinance, 1962 and includes Punjab Provincial Cooperatives Bank Ltd.
4. **Borrower** means a person including corporate farm to whom, any agricultural financing has been extended by bank/DFI.
5. **Corporate Farm** means a legal entity separate from its owner(s) and carry out farming activity at a large scale. The entity exclusively engaged in processing, packaging and marketing of agricultural produce shall not fall under this

category. The entities engaged in farming activity as well as processing, packaging and marketing of mainly their own agricultural produce provided more than 75% of the agriculture produce being processed, packaged and marketed should have been produced by the farm itself, would be categorized as Corporate Farm (i.e. only where the farming constitutes a major portion of its operations).

6. **DFI** means Development Financial Institution and includes the Pakistan Industrial Credit and Investment Corporation (PICIC), the Saudi Pak Industrial and Agricultural Investment Company Limited, the Pak Kuwait Investment Company Limited, the Pak Libya Holding Company Limited, the Pak Oman Investment Company (Pvt.) Limited, Investment Corporation of Pakistan, House Building Finance Corporation and any other financial institution notified under Section 3-A of the Banking Companies Ordinance, 1962.
7. **Equity of the Bank/DFI** means Tier-I Capital or Core Capital and includes paid-up capital, general reserves, balance in share premium account, reserve for issue of bonus shares and retained earnings / accumulated losses as disclosed in latest annual audited financial statements. In case of branches of foreign banks operating in Pakistan, equity will mean capital maintained, free of losses and provisions, under Section 13 of the Banking Companies Ordinance, 1962.
8. **Equity of the Borrower** includes paid-up capital, general reserves, balance in share premium account, reserve for issue of bonus shares and retained earnings / accumulated losses, revaluation reserves on account of fixed assets and subordinated loans.

The Preference Shares, only with the following features, will now also be included in the equity of the borrower:

- There should not be any provision for redemption or the redemption should be at the option of the issuer.
- In case the issuer is given an option to redeem the preference shares, as per agreed terms and conditions, the issuer will redeem the shares only through a sinking fund created out of the profits of the company. Further, the sinking fund created for this purpose would not be calculated towards the equity of the issuer.
- The terms and conditions should not give rise to a contractual obligation on the part of the issuer to deliver another financial asset or exchange another financial instrument under conditions that are or can be potentially unfavourable to the issuer. However, an option to convert preference shares into common shares may be included in the features of the preference shares.
- The terms and conditions of the preference shares should not be such as to compel the issuer economically, financially or otherwise to redeem the shares.
- Payment and distribution of dividend to the holders of preferred shares, whether cumulative or non-cumulative should be at the discretion of the issuer.

Revaluation reserves will remain part of the equity for first three years only, from the date of asset revaluation, during which time the borrower will strengthen its equity base to enable it to avail facilities without the benefit of revaluation reserves. However, if a borrower gets revaluation during the three years period, the borrower will be allowed the benefit from fresh revaluation, to the extent of increase in revaluation reserves, but restricting the benefit of such incremental value to 3 years only. Similarly, if after 3 years, the borrower again gets revaluation of the assets with resultant addition in their value, the benefit of such revaluation may also be allowed for the next 3 years, again to the extent of increase in revaluation reserves.

The revaluation reserves to be eligible for benefit should be calculated by the valuers on the approved panel of the PBA. If the bank/DFI obtains copy of accounts as per requirement in Prudential Regulation R-27, then such revaluation reserves should appear in the said accounts, and in such case, no parallel calculation by the banks / DFIs for amortization purposes will be required. In case of no requirement of copy of accounts, the borrower may still be given the benefit of revaluation reserves in the way mentioned above, but the bank / DFI will calculate the amortization of the same independently.

9. **Exposure** means financing facilities whether fund based and / or non-fund based and include:
- (i) Any form of financing facility extended or bills purchased/ discounted except ones drawn against the L/Cs of banks / DFIs rated at least 'A' by Standard & Poor, Moody's, and Fitch-Ibca or credit rating agency on the approved panel of State Bank of Pakistan and duly accepted by such L/C issuing banks/ DFIs.
 - (ii) Any financing facility extended or bills purchased/discounted on the guarantee of the person.
 - (iii) Subscription to or investment in shares, Participation Term Certificates, Term Finance Certificates or any other Commercial Paper by whatever name called (at book value) issued or guaranteed by the persons.
 - (iv) Credit facilities extended through credit cards or kissan cards or other like cards etc.
 - (v) Any financing obligation undertaken on behalf of the person under a letter of credit including a stand-by letter of credit, or similar instrument.
 - (vi) Loan repayment financial guarantees issued on behalf of the person.
 - (vii) Any obligations undertaken on behalf of the person under any other guarantees including underwriting commitments.
 - (viii) Acceptance/endorsements made on account.
 - (ix) Any other liability assumed on behalf of the client to advance funds pursuant to a contractual commitment.
10. **Financial Institution** mean banks, Development Financial Institutions (DFIs) and NBFCs.
11. **Forced Sale Value** means the value which fully reflects the possibility of price fluctuations and can currently be obtained by selling the mortgaged/pledged assets in a forced/distressed sale conditions.

12. **Government Securities** shall include such types of Pak. Rupee obligations of the Federal Government or a Provincial Government or of a Corporation wholly owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government and guaranteed by the Federal Government as the Federal Government may, by notification in the Official Gazette, declare, to the extent determined from time to time, to be Government Securities.
13. **Group** means persons, whether natural or juridical, if one of them or his dependent family members or its subsidiary have control or hold substantial ownership interest over the other. For the purpose of this:
- (a) **Subsidiary** will have the same meaning as defined in sub-section 3(2) of the Companies Ordinance, 1984 i.e. a company or a body corporate shall deemed to be a subsidiary of another company if that other company or body corporate directly or indirectly controls, beneficially owns or holds more than 50% of its voting securities or otherwise has power to elect and appoint more than 50% of its directors.
 - (b) **Control** refers to an ownership directly or indirectly through subsidiaries, of more than one half of voting power of an enterprise.
 - (c) **Substantial ownership / affiliation** means beneficial share holding of more than 25% by a person and / or by his dependent family members, which will include his/her spouse, dependent lineal ascendants and descendants and dependent brothers and sisters. However, shareholding in or by the Government owned entities and financial institutions will not constitute substantial ownership/affiliation, for the purpose of these Prudential Regulations.
14. **Liquid Assets** are the assets which are readily convertible into cash without recourse to a court of law and mean encashment/realizable value of government securities, bank deposits, certificates of deposit, gold/silver ornaments, certificates of National Saving Schemes, shares of listed companies which are actively traded on the stock exchange, NIT Units, certificates of mutual funds, Certificates of Investment (COIs) issued by DFIs/NBFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan, listed TFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan and certificates of asset management companies for which there is a book maker quoting daily offer and bid rates and there is active secondary market trading. These assets with appropriate margins should be in possession of the banks/DFIs with perfected lien.

Guarantees issued by domestic banks/DFIs when received as collateral by banks/DFIs will be treated at par with liquid assets whereas, for guarantees issued by foreign banks, the issuing banks' rating, assigned either by Standard & Poors, Moody's or Fitch-Ibca, should be 'A' and above or equivalent.

The Inter-branch Indemnity/Guarantee issued by the bank's overseas branch in favor of its sister branch in Pakistan, would also be treated at par with Liquid Assets, provided the bank is rated 'A' and above or equivalent either by Standard & Poors, Moody's or Fitch-Ibca. The indemnity for this purpose, should be similar to a guarantee i.e. unconditional and demand in nature.

15. **Market Value** means value assigned by the revenue authorities on the basis of three years average market sale price per acre of the area, OR valuation carried out by PBA approved evaluator.
16. **NBFC** means Non Bank Finance Company as defined in NBFC Rules 2003, issued by Securities & Exchange Commission of Pakistan (SECP).
17. **Other Form of Security** means hypothecation of movable agricultural machinery, pledge/ hypothecation of agriculture produce on the farm or in godown, and charge on livestock on the farm. In case of pledge/ hypothecation of agriculture produce lying in godown, the title/ownership of the produce in the name of the borrower shall be determined on the basis of appropriate documents.
18. **PIU Value** means value of the agriculture land determined by the federal government on the basis of produce index units.
19. **Secured** means exposure backed by tangible security and any other form of security with appropriate margins (in cases where margin has been prescribed by State Bank, appropriate margin shall at least be equal to the prescribed margin). Exposure without any security or collateral or backed solely by personal guarantees would be considered as clean.

The banks/DFIs may also take exposure against Trust Receipt. They are, however, free to take collateral/securities, to secure their risks/exposure, in addition to the Trust Receipt.

Banks/DFIs will be free to decide about obtaining security/collaterals against the L/C facilities for the interim period, i.e. from the date of opening of L/C till the receipt of title documents to the goods.

20. **Subordinated Loan** means an unsecured loan extended to the borrower by its sponsors, subordinate to the claim of the bank / DFI taking exposure on the borrower and documented by a formal sub-ordination agreement between provider of the loan and the bank / DFI. The loan shall be disclosed in the annual audited financial statements of the borrower as subordinated loan.
21. **Tangible Security** means liquid assets (as defined in these Prudential Regulations) and mortgage of land, both urban and rural property, (equitable as well as registered), building and any other fixed asset. Mortgage of land created by way of bank's charge on passbook and registration of charge in the books of the revenue authority would also be considered valid tangible security.

Part - B

GENERAL REGULATIONS

REGULATION R-1

REPAYMENT CAPACITY OF THE BORROWER

While extending agricultural financing, the banks/DFIs should take into account the total indebtedness of the borrower and his disposable income. The banks/DFIs should ensure that the total financing to a borrower, in relation to his repayment capacity, does not exceed the reasonable limits as laid down in approved policies of the banks/DFIs.

REGULATION R-2

COMPREHENSIVE AGRICULTURE FINANCING POLICY

Banks/DFIs would prepare a comprehensive agriculture financing policy duly approved by their Board of Directors. The agricultural policy may be part of the overall credit policy of a bank/DFI. The policy should, inter alia cover loan administration, disbursement and appropriate monitoring mechanism. It shall also explicitly specify the main functions, major responsibilities and various staff positions' powers/authority relating to approval / sanction of financing limits. Management of the bank/DFI may also approve a certain loan product, provided the Board, through a resolution, has delegated authority/empowered the management for the same. It is clarified that the comprehensive agriculture financing policy to be approved by the Board of Directors would cover only broad areas of strategic importance.

Banks/DFIs are encouraged to adopt program based lending approach, which will base the decision making on objective parameters and help in reducing the subjectivity of the dealing officers. Banks/DFIs are also encouraged to prepare comprehensive recovery procedures, which should inter alia specify certain triggers for taking specified actions while requiring reasons to be recorded in writing in exceptional cases where specified actions are not being taken

REGULATION R-3

STANDARDIZED DOCUMENTS

The banks/DFIs may use standardized documents, prepared by a committee of bankers and issued by Agriculture Credit Department vide Circular No. 05/2744-2762/A&B/2003 dated 11th August 2003. However, banks/DFIs are free to obtain a separate set of documents or additional documents in order to safeguard their interest.

REGULATION R-4

EXPEDITIOUS PROCESSING AND COMMUNICATION OF DECISION TO BORROWER

Banks/DFIs will ensure that the applications for agriculture financing are processed expeditiously in accordance with the Agricultural, Commercial and Industrial Purposes Act 1973, and the decision for grant/decline of the credit is conveyed to the borrower as early as possible.

The banks/DFIs are advised to disburse short term loans within seven working days and long term loans with fifteen working days of the receipt of the pass book from the Revenue Officer with bank's charge created thereon and completion of all other formalities.

REGULATION R-5

MAXIMUM PER PARTY LIMIT

The maximum exposure on any single borrower (fund based and non-fund based) by a bank/DFI should not exceed 30% of the bank's/DFI's equity (as disclosed in the latest audited financial statements), subject to the condition that the maximum

outstanding against fund based exposure does not exceed 20% of the bank's/DFI's equity. Similarly, the total outstanding exposure (fund based and non-fund based) by a bank/DFI to any group shall not exceed 50% of the bank's/DFI's equity, subject to the condition that the maximum outstanding against fund based exposure does not exceed 35% of the bank's/DFI's equity.

REGULATION R-6

MAXIMUM UNSECURED FINANCING

Maximum unsecured financing, which can be availed by a borrower, from all banks/DFIs, would not exceed Rs. 500,000. In order to ensure that the prescribed limit is not breached, bank/DFI would obtain a written declaration from the borrower about unsecured facilities availed by it from other financial institutions. All exposures in excess of Rs. 500,000 should be properly secured as defined in these Prudential Regulations.

REGULATION R-7

REPAYMENT SCHEDULE AND RELAXATION TO AGRICULTURAL BORROWERS

Agriculture is highly dependent upon certain unforeseen and unexpected factors like weather, availability of water, etc. which are not under the control of the farmers. Accordingly, these factors may adversely affect the repayment capacity of the borrower at least temporarily. The banks/DFIs are, therefore, allowed to grant relaxation period up to one year in repayment schedule, to their borrowers who have been adversely affected due to such factors. Such relaxation may be granted on case-to-case basis or en-block to the borrowers in the affected area after obtaining prior approval from the board of directors of the concerned banks/DFIs.

Where such a relaxation has been granted by banks/DFIs, the relaxation period would not be counted towards default period and non-payment in the relaxation period would not affect the category of classification. However, mark-up accrued during the relaxation period would not be credited to income account but kept in memorandum account. The loans already classified, without taking into account non-payment during the relaxation period, would remain classified in the same category and the income would remain in the memorandum account as advised vide BSD Circular No. 9 dated 12th November 2003.

REGULATION R-8

PROPER UTILIZATION OF LOAN

Where the agricultural loans have been extended for specified purposes, the banks/DFIs are encouraged to ensure that the loans have been utilized for the same purposes for which they were obtained. For this purpose, the banks/DFIs may consider it prudent to make payments directly to the suppliers wherever appropriate. However, this regulation will not apply on farmers who are provided loans under Revolving Credit Scheme.

REGULATION R-9

CREDIT REPORT

Before extending any financing facility in excess of Rs. 500,000 (after netting of the liquid assets) at present, or any threshold prescribed by the State Bank of Pakistan from time to time, the banks/DFIs would obtain credit report of the borrower from Credit Information Bureau of State Bank of Pakistan. While taking any exposure, banks/DFIs would give due weightage to the CIB report, however, they may take

exposure on defaulters keeping in view their own risk management policies and criteria, provided they properly record reasons and justifications in the approval form.

REGULATION R-10

BORROWER BASIC FACT SHEET AND KYC REQUIREMENTS

Before extending any financing facility, banks/DFIs would obtain information from the borrower as outlined in the Borrower Basic Fact Sheet (Annexure I-A for corporate borrowers and Annexure I-B for individual borrowers). For the convenience of the borrowers, banks/DFIs are also encouraged to make the borrower basic fact sheet a part of their loan application form. The banks/DFIs do not need to obtain separate Borrower's Basic Fact Sheet if the information required in the Borrower's Basic Fact Sheet has already been made a part of the Loan Application Form.

Banks/DFIs would ensure compliance with KYC requirements laid down in Regulation M-1 of Prudential Regulations for Corporate / Commercial Banking, and other instructions issued from time to time, before opening account of an agricultural borrower or before extending financing facility to him. Moreover, in cases where a prospective agricultural borrower is facing difficulty in finding an introducer for opening of an account, Agriculture Pass Book/ Khasra Gurdwari/ Fard Jama Bandi duly attested by Revenue Officer shall be considered sufficient for his introduction. The banks/DFIs may also accept introduction of other persons viz. The Revenue Officer, Post Master/Postman, Supplier of agri-inputs, member of Union Council and a person from the Marketing Agency (marketing agri-products).

REGULATION R-11

CASH RECOVERY OUTSIDE THE BANK'S AUTHORIZED PLACE OF BUSINESS

In order to facilitate the recovery efforts, banks/DFIs are allowed to undertake cash collection/recovery at places other than their authorized places of business. However, banks/DFIs would devise appropriate procedures including strict controls to manage security risks and avoid frauds and misappropriation.

REGULATION R-12

BAR ON ADJUSTMENT LENDING TO AVOID CLASSIFICATION OR MEET INDICATIVE TARGETS

Banks/DFIs are strictly prohibited to undertake any sort of adjustment lending (adjusting the outstanding loan with a fresh loan) to avoid classification or meet allocated targets for agriculture financing.

In case of running finance, where the outstanding mark-up has been received by the banks/DFIs, the principal may be rolled over/renewed and this rollover/renewal shall not be considered adjustment lending for the purpose of this regulation.

REGULATION R-13

GUARANTEES

All guarantees issued by the banks/DFIs shall be fully secured and the bank must be satisfied with regards to the underlying transaction and the collaterals.

In case of back to back letter of credit issued by the banks/DFIs for export oriented goods and services, banks/DFIs are free to decide the security arrangements at their own discretion subject to the condition that the original L/C has been established by branches of guarantee issuing bank or a bank rated at least 'A' by Standard & Poors, Moody's or Fitch-Ibca.

The guarantees shall be for a specific amount and expiry date and shall contain claim lodgment date. However, banks/DFIs are allowed to issue open-ended guarantees without clearance from State Bank of Pakistan provided banks/DFIs have secured their interest by adequate collateral or other arrangements acceptable to the bank/DFI for issuance of such guarantees in favour of Government departments, corporations/ autonomous bodies owned/controlled by the Government and guarantees required by the courts.

REGULATION R-14

CLASSIFICATION OF AGRICULTURE LOANS

While time based criteria for the classification of each category of agriculture loans is given under the respective head, banks/DFIs should evaluate performing and non-performing portfolio for risk assessment and where considered necessary, any loan account including performing account, should be classified and the category of classification determined on the basis of time based criteria should be further downgraded. Such evaluation should be carried out on the basis of credit worthiness of the borrower, its cash flow, operation in the account, adequacy of the security inclusive of its realizable value and documentation covering the advances.

REGULATION R-15

REGULARIZATION OF THE NON-PERFORMING LOANS

The rescheduling/restructuring of non-performing loans shall not change the status of classification of a loan/advance etc. unless the terms and conditions of rescheduling/restructuring are fully met for a period of at least one year (excluding grace period, if any) from the date of such rescheduling/restructuring and at least 10% of the outstanding amount is recovered in cash. Further, the unrealized mark-up on such loans (declassified after rescheduling/restructuring) shall not be taken to income account unless at least 50% of the amount is realized in cash. However, this will not impact the de-classification of this account if all other criteria (meeting the terms and conditions for at least for one year and payment of at least 10% of outstanding amount by the borrower) are met. Accordingly, banks / DFIs are directed to ensure that status of classification, as well as provisioning, is not changed in relevant reports to the State Bank of Pakistan merely because a loan has been rescheduled or restructured. However, while reporting to the Credit Information Bureau (CIB) of State Bank of Pakistan, such loans / advances may be shown as 'rescheduled / restructured' instead of 'default'.

Where a borrower subsequently defaults (either principal or mark-up) after the rescheduled / restructured loan has been declassified by the bank/DFI as per above guidelines, the loan will again be classified in the same category it was in at the time of rescheduling/restructuring and the unrealized markup on such loans taken to income account shall also be reversed. However, banks/DFIs at their discretion may further downgrade the classification, taking into account the subjective criteria.

At the time of rescheduling/restructuring, banks/DFIs shall consider and examine the requests for working capital strictly on merit, keeping in view the viability of the project/ business and appropriately securing their interest etc.

All fresh loans granted by the banks/DFIs to a party after rescheduling/restructuring of its existing facilities may be monitored separately, and will be subject to classification under this Regulation on the strength of their own specific terms and conditions.

Part - C

SPECIFIC REGULATIONS

A. FARM CREDIT FOR INPUTS

The finance provided by banks/DFIs to purchase inputs like seeds, fertilizers, pesticides, etc. as well as working capital finance provided to meet various sort of expenses attributable to farming like wages, etc. will be categorized as Farm Credit for inputs. Such loans are self liquidating, with repayment occurring shortly after harvest from sale of the crop for which the loan was made.

REGULATION R-16
TENURE

Since such loans are self-liquidating at the end of the growing cycle from the proceeds of the product sale, therefore, the maturities of these loans shall coincide with the production cycle for the product being financed. The tenure of this sort of financing will generally be less than one year. However, for certain crops requiring longer periods (from sowing to sale of the produce), banks/DFIs at their own discretion may extend financing for periods longer than one year. Further, banks/DFIs, at their own discretion, may sanction running finance limits to the borrowers, automatically renewable on annual basis. Such running finance limits would eliminate the need to process the loan case on periodical basis and facilitate both the borrowers and banks/DFIs.

REGULATION R-17
CLASSIFICATION AND PROVISIONING

Farm credit for inputs would be classified, subject to the relaxation in Regulation R-7, in the following manner:

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
1. OAEM (Other Assets Especially Mentioned).	Where mark-up/ interest or principal is overdue (past due) by 90 days from the due date.	Unrealized mark-up/ interest to be put in Memorandum Account and not to be credited to Income Account except when realized in cash.	No Provision is required.
2. Substandard.	Where mark-up/ interest or principal is overdue by one year or more from the due date.	As above.	Provision of 20% 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 50% of the value of mortgaged land and building as valued at the time of sanctioning of loan.
3. Doubtful.	Where mark-up/ interest or	As above.	Provision of 50% of the difference resulting

	principal is overdue by one year and a half or more from the due date.		from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and 25% of the value of mortgaged land and building as valued at the time of sanction of loan.
4. Loss.	Where mark-up/ interest or principal is overdue beyond two years 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 25% of the value of mortgaged land and building as valued at the time of sanction of loan. However, in any case, the loan account shall be fully charged off after three years from the date of default.

Note: Charge-off means extinguishing the loans through provisions, if the loan has been provided 100% of the outstanding loan amount. However, in case of shortfall in provisions, due to weightage already allowed for land and building, such shortfall may be written-off from the bank's/DFI's profitability. The charge-off of a certain loan, however, does not mean cessation of bank's/DFI's right to recover its money from the borrower through litigation or any other way. While charging-off the loss-classified loans, the eligible assets held with the bank/DFI, or re-possessed by it, may be disposed-off, and amount appropriated accordingly. However, the security in the form of land and building may take time to be taken by the bank/DFI in its possession and disposed later-on; as such, the requirement of charging-off will not be postponed due to such factors.

B. FARM DEVELOPMENTAL FINANCE

Farm Developmental Finance is a finance extended by the banks for making different types of improvements in the land including construction of godown, etc. at the farm and for development of orchids, nurseries, etc. Such loans will be of long-term nature, to be allowed for a period of 5 years and above, with a loan-to-value ratio not exceeding 90:10.

REGULATION R-18

CLASSIFICATION AND PROVISIONING

Farm Developmental Finance would be classified, subject to the relaxation in Regulation R-7, in the following manner:

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
1. OAEM (Other Assets Especially Mentioned).	Where mark-up/ interest or principal is overdue (past due) by 90 days from the due date.	Unrealized mark-up/ interest to be put in Memorandum Account and not to be credited to Income Account except when realized in cash.	No Provision is required.
2. Substandard.	Where mark-up/ interest or principal is overdue by one year from the due date.	As above.	Provision of 20% 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 50% of the value of mortgaged land and building as valued at the time of sanctioning of loan.
3. Doubtful.	Where mark-up/ interest or principal is overdue by two years 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 25% of the value of mortgaged land and building as valued at the time of sanction of loan.

4. Loss.	Where mark-up/ interest or principal is overdue beyond three years 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 25% of the value of mortgaged land and building as valued at the time of sanction of loan. However, in any case, the loan account shall be fully charged off after three years from the date of default.
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Note: Charge-off means extinguishing the loans through provisions, if the loan has been provided 100% of the outstanding loan amount. However, in case of shortfall in provisions, due to weightage already allowed for land and building, such shortfall may be written-off from the bank's/DFI's profitability. The charge-off of a certain loan, however, does not mean cessation of bank's/DFI's right to recover its money from the borrower through litigation or any other way. While charging-off the loss-classified loans, the eligible assets held with the bank/DFI, or re-possessed by it, may be disposed-off, and amount appropriated accordingly. However, the security in the form of land and building may take time to be taken by the bank/DFI in its possession and disposed later-on; as such, the requirement of charging-off will not be postponed due to such factors.

C. LOANS FOR THE PURCHASE OF MACHINERY/EQUIPMENT

The loans extended by banks/DFIs for the purchase of machinery and equipment used for agricultural purposes at the farms like tractors, threshers, tube wells, etc. The tenure of such financing should not be more than the useful life of machinery/equipment.

REGULATION R-19 **SECURITY**

The equipment financed by the bank/DFI would be hypothecated in the favour of the bank/DFI.

REGULATION R-20 **INSURANCE**

The banks/DFIs would ensure that the tractors financed by them remain insured at all times during the tenure of the loan. Banks/DFIs are also encouraged to arrange insurance of other machinery and equipment financed by them to protect their interest.

REGULATION R-21 **CLASSIFICATION AND PROVISIONING**

Loans for the purchase of machinery and equipment will be classified, subject to the relaxation in Regulation R-7, in the following manner:

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
1. OAEM (Other Assets Especially Mentioned).	Where mark-up/ interest or principal is overdue (past due) by 90 days from the due date.	Unrealized mark-up/ interest to be put in Memorandum Account and not to be credited to Income Account except when realized in cash.	No Provision is required.
2. Substandard.	Where mark-up/ interest or principal is overdue by one year from the due date.	As above.	Provision of 20% 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 50% of the value of mortgaged land and building as valued at the time of sanctioning of loan.
3. Doubtful.	Where mark-up/ interest or principal is overdue by one	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal

	and a half years or more from the due date.		less the amount of liquid assets realizable without recourse to a Court of Law and 25% of the value of mortgaged land and building as valued at the time of sanction of loan.
4. Loss.	Where mark-up/ interest or principal is overdue beyond two years 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 25% of the value of mortgaged land and building as valued at the time of sanction of loan. However, in any case, the loan account shall be fully charged off after three years from the date of default.

Note: Charge-off means extinguishing the loans through provisions, if the loan has been provided 100% of the outstanding loan amount. However, in case of shortfall in provisions, due to weightage already allowed for land and building, such shortfall may be written-off from the bank's/DFI's profitability. The charge-off of a certain loan, however, does not mean cessation of bank's/DFI's right to recover its money from the borrower through litigation or any other way. While charging-off the loss-classified loans, the eligible assets held with the bank/DFI, or re-possessed by it, may be disposed-off, and amount appropriated accordingly. However, the security in the form of land and building may take time to be taken by the bank/DFI in its possession and disposed later-on; as such, the requirement of charging-off will not be postponed due to such factors.

D. FINANCING FOR LIVESTOCK

The loans extended for goat/sheep farming, breeding of animals, dairy farming, fishing farms, poultry farms, etc. by banks/DFIs would fall under this category.

REGULATION R-22 **SECURITY**

The banks/DFIs at their own discretion may accept livestock as security. However, as the values of livestock may fluctuate substantially depending upon factors such as the animal's age, health, breed, sex, and reproductive capacity, the individuals performing livestock evaluation should be capable of recognizing these issues, making appropriate adjustments, and documenting the results.

REGULATION R-23 **PERIODIC INSPECTION AND VERIFICATION**

Due to the relative ease with which livestock can be moved, lack of formal mechanism for transfer of title and ownership and volatility of livestock values, banks/DFIs shall, in all cases where livestock has been accepted as security, conduct periodic inspections, at-least twice a year. Such inspections should be carried out by a qualified and appropriately trained person, who may be an official from the bank or an independent person.

REGULATION R-24 **TENURE**

The maximum tenure for livestock financing would be five years (including of grace period).

REGULATION R-25 **CLASSIFICATION AND PROVISIONING**

The loans for livestock shall be classified in the manner as prescribed in Regulation R-21 of these Prudential Regulations.

E. CORPORATE FARMING

Other than the regulations prescribed above, the following additional regulations shall apply in case of Corporate Farming:

REGULATION R-26

LINKAGE BETWEEN FINANCIAL INDICATORS OF THE BORROWER AND TOTAL EXPOSURE FROM FINANCIAL INSTITUTIONS

While taking any exposure, banks/DFIs shall ensure that the total exposure (fund-based and/or non-fund based) availed by any borrower from financial institutions does not exceed 10 times of borrower's equity as disclosed in its financial statements (obtained in accordance with Regulation R-27), subject to the condition that the fund based exposure does not exceed 4 times of its equity as disclosed in its financial statements.

It is expected that at the time of allowing fresh exposure/enhancement/renewal, the current assets to current liabilities ratio of the borrower shall not be lower than 1:1. However, in exceptional cases, banks/DFIs may relax this ratio up to 0.75:1 if they are satisfied that appropriate risk mitigants have been put in place or the ratio has been adversely impacted due to the nature of the business of the borrower.

For the purpose of this regulation, subordinated loans shall be counted as equity of the borrower. Banks/DFIs should specifically include the condition of subordinated loan in their Offer Letter. The subordination agreement to be signed by the provider of the subordinated loan, should confirm that the subordinated loan will be repaid after that bank's / DFI's prior approval.

This regulation shall not apply in case of exposure fully secured against liquid assets held as collateral.

REGULATION R-27

COPY OF AUDITED ACCOUNTS WHERE EXPOSURE EXCEEDS RS. 10 MILLION

Banks / DFIs shall, as a matter of rule, obtain a copy of financial statements duly audited by a practicing Chartered Accountant, relating to the business of every borrower who is a limited company or where the exposure of a bank / DFI exceeds Rs 10 million, for analysis and record. The banks / DFIs may also accept a copy of financial statements duly audited by a practicing Cost and Management Accountant in case of a borrower other than a public company or a private company which is a subsidiary of a public company. However, banks / DFIs may waive the requirement of obtaining copy of financial statements when the exposure net of liquid assets does not exceed the limit of Rs 10 million. Further, financial statements signed by the borrower will suffice where the exposure is fully secured by liquid assets.

**BORROWER'S BASIC FACT SHEET- FOR CORPORATE
PRESCRIBED UNDER REGULATION R-10**

Date of Request. _____

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

1. BORROWER'S PROFILE:

Name										Address									
Phone #										Fax #					E-mail Address				
Office					Res.														
Computerized National Identity Card #										National Tax #					Sales Tax #				
Import Registration #					Export Registration #					Date of Establishment					Date of opening of A/c.				
Pass Book #										Date of Issue of Pass Book									

2. DETAILS OF DIRECTORS/OWNERS/PARTNERS:

Name										Address									
Phone #										Fax #					E-mail Address				
Office					Res.														
Computerized National Identity Card #										National Tax #									
Share-holding					Amount					% of Share-holding									

3. MANAGEMENT:**A) EXECUTIVE DIRECTORS/PARTNERS:**

Name	Address	CNIC #	Phone #
1.			
2.			

B) NON-EXECUTIVE DIRECTORS/PARTNERS:

Name	Address	CNIC #	Phone #
1.			
2.			

4. CORPORATE STATUS:

Sole Proprietorship	Partnership	Public / Private Limited Company

5. NATURE OF BUSINESS:

Industrial	Commercial	Agricultural	Services	Any other

6. REQUESTED LIMITS:

	Amount	Tenor
Fund Based		
Non-Fund Based		

7. BUSINESS HANDLED/EFFECTED WITH ALL FINANCIAL INSTITUTIONS DURING THE LAST ACCOUNTING YEAR:

Imports	Exports	Remittances effected (if any)

8. EXISTING LIMITS AND STATUS:

	Amount	Expiry Date	Status	
			Regular	Amount Overdue(if any)
Fund Based				
Non-Fund Based				

9. ANY WRITE-OFF, RESCHEDULING/ RESTRUCTURING AVAILED DURING THE LAST THREE YEARS:

Name of Financial Institution	Amount during 1 st Year		Amount during 2 nd Year		Amount during 3 rd Year	
	Write-off	Rescheduled/ Restructured	Write-off	Rescheduled/ Restructured	Write-off	Rescheduled/ Restructured

10. DETAILS OF PRIME SECURITIES MORTGAGED/ PLEDGED:

A) AGAINST EXISTING FACILITIES:

Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value
1.				
2.				

B) AGAINST REQUESTED/ FRESH/ ADDITIONAL FACILITIES:

Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value
1.			
2.			

11. DETAILS OF SECONDARY COLLATERAL MORTGAGED/ PLEDGED:

A) AGAINST EXISTING FACILITIES:

Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value
1.				
2.				
3.				

B) AGAINST REQUESTED/ FRESH/ ADDITIONAL FACILITIES:

Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value
1.			
2.			

12. CREDIT RATING (WHERE APPLICABLE):

Name of Rating Agency	Rating

13. DETAILS OF ASSOCIATED CONCERNS (AS DEFINED IN COMPANIES ORDINANCE, 1984):

Name of Concern	Name of Directors	Share-holding	% of Total Share Capital

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14. FACILITIES TO ASSOCIATED CONCERNS BY THE CONCERNED FI:

Name of Concern	Nature & Amount of Limit	Outstanding as on-----	Nature & Value of Securities	Overdues	Defaults

15. DETAILS OF PERSONAL GUARANTEES PROVIDED BY THE DIRECTORS / PARTNERS ETC. TO FIs TO SECURE CREDIT:

Names of the Guarantors	Institutions/persons to whom Guarantee given	Amount of Guarantee	Validity Period	NIC #	NTN	Net-worth

16. DIVIDEND DECLARED (AMOUNT) DURING THE LAST THREE YEARS:

During 1 st Year	During 2 nd Year	During 3 rd Year

17. SHARE PRICES OF THE BORROWING ENTITY:

Listed Company		Break-up Value of the Shares in case of Private Limited Company
Current Price	Preceding 12 Months Average	

18. NET-WORTH (PARTICULARS OF ASSETS OWNED IN THEIR OWN NAMES BY THE DIRECTORS/PARTNERS/PROPRIETORS):

Owner's Name	Particulars of Assets	Market value	Particulars of Liabilities

19. DETAILS OF ALL OVERDUES (IF OVER 90 DAYS):

Name of Financial Institution	Amount

20. Details of payment schedule if term loan sought.

21. Latest Audited Financial Statements as per requirements of Regulation R-27 to be submitted with the LAF (Loan Application Form).

22. Memorandum and Articles of Association, By-laws etc. to be submitted by the borrower along with the request.

I certify and undertake that the information furnished above is true to the best of my knowledge.

CHIEF EXECUTIVE'S/ BORROWER'S
SIGNATURE & STAMP

COUNTER SIGNED BY:

AUTHORISED SIGNATURE & STAMP
(BANK / DFI OFFICIAL)

**BORROWER'S BASIC FACT SHEET - FOR INDIVIDUALS
PRESCRIBED UNDER PRUDENTIAL REGULATION R-10**

Date of Request. _____

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

1. BORROWER'S PROFILE:

Name										Address									
Phone #										Fax #					E-mail Address				
Office					Res.														
Computerized National Identity Card #										National Tax #									
Father's Name										Father's Computerized National Identity Card #									
Pass Book #										Date of Issue of Pass Book									

2. REFERENCES (AT LEAST TWO):

Name										Address									
Phone #										Fax #					E-mail Address				
Office					Res.														
Computerized National Identity Card #										National Tax #									

3. NATURE OF BUSINESS/ PROFESSION:

Industrial	Commercial	Agricultural	Services	Any other

4. EXISTING LIMITS AND STATUS:

	Amount	Expiry Date	Status		
			Regular	Amount Over-due (if any)	Amount Rescheduled/ Restructured (if any)
Fund Based					
Non-Fund Based					

5. REQUESTED LIMITS:

	Amount	Tenor
Fund Based		
Non-Fund Based		

6. Details of payment schedule if term loan sought.

7. Latest Income Tax / Wealth Tax Form to be submitted by the borrower.

I certify and undertake that the information furnished above is true to the best of my knowledge.

APPLICANT'S SIGNATURE &
STAMP

COUNTER SIGNED BY: _____
AUTHORISED SIGNATURE & STAMP
(BANK / DFI OFFICIAL)

