Prudential Regulations
for Agriculture Financing

(Updated on February 12, 2024)

Agriculture Credit & Financial Inclusion Department

STATE BANK OF PAKISTAN
I.I CHUNDRIGAR ROAD KARACHI

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PREFACE

Mainstreaming agriculture and rural finance sector in the country's financial system as a commercially viable and attractive business line through sector friendly policies has always been a top priority at State Bank of Pakistan. In line with this mission, SBP earlier issued detailed Prudential Regulations (PRs) for Agriculture Financing in 2005.

Since then, various changes have been taken place in terms of; issuance of new instruction & guidelines; enhanced focus on risk management and due diligence; departure from directed credit regime, provision of agri. credit through Islamic banks and microfinance banks in addition to conventional lenders; introduction of mandatory crop loan insurance; changes in market dynamics and requirements of agri. financing. To envisage these changes and to further strengthen and align the agricultural framework with the best practices and challenging local business environment, SBP has issued these Revised Prudential Regulations for Agriculture Financing.

The revised Prudential Regulations for Agricultural Financing covers; (i) General Regulations related to comprehensive agri. financing policy, exposure limits, secured/unsecured financing limits, guarantees, classification of loans, and other general requirements; and (ii) Specific Regulations for farm credit for input, farm development finance, loans for purchase of machinery/ equipment, livestock financing, and corporate farming. The Prudential Regulations for Agricultural Financing do not supersede other directives issued by State Bank of Pakistan in respect of areas not covered here.

These Revised PRs will bring more clarity and ease for doing business without compromising on financial stability and risk mitigation. 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.

Abid Qamar
(Director)
Agriculture Credit & Financial Inclusion Department

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/Debit Card holders can use their cards for purchase of agricultural inputs/ machinery under agri. financing schemes.

(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 includes financing for fisheries and Livestock viz. dairy, poultry.

(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 (Agricultural Credit Advisory Committee) from time to time.

(iv) Agriculture financing shall not include loans to traders and intermediaries engaged in trading/processing of agricultural 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 agricultural produce.

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 and authenticated as per provisions contained in "Agricultural,

Commercial and Industrial Purposes Act 1973” by the competent authority of the Revenue Department.

3. **Agency Banking** to be defined such as, “banks can do business acquisition in rural areas by partnering with intermediaries through a pre-defined criterion in terms of key performance benchmarks against a market based arrangement.”

4. **Bank** means a banking company as defined in the Banking Companies Ordinance, 1962 and includes Punjab Provincial Cooperatives Bank Limited.

5. **Borrower** means a person including corporate farm to whom, any agricultural financing has been extended by bank/DFI/MFB.

6. **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.

7. **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.

8. **DFI** means Development Financial Institution and includes all the institutions as per the approved list of SBP and notified under Section 3-A of the Banking Companies Ordinance, 1962.

9. **Equity of the Bank/DFI** includes paid-up capital, general reserves, balance in share premium account, reserve for issue of bonus shares, statutory reserves 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.

10. **Exposure** shall include:
    Financing facilities whether fund based or non-fund based extended by a bank/DFI and include:
    - i.) Any form of financing facility extended or Bills purchased/discounted, except ones drawn against the L/Cs of banks/DFIs meeting the criteria mentioned in BPRD Circular No. 03 of 2011.Bills purchased/discounted on the guarantee of the person.
    - ii.) Credit facilities extended through credit cards or other like cards etc.

iii.) Any financing obligation undertaken on behalf of the person under a letter of credit including a stand-by letter of credit, or similar instrument.
iv.) Loan repayment financial guarantees issued on behalf of the person.
v.) Any obligations undertaken on behalf of the person under any other guarantees including underwriting commitments.
vi.) Acceptance/endorsements made on account.
vii.) Any other liability assumed on behalf of the client to advance funds pursuant to a contractual commitment.

11. **Financial Institution** means banks, Development Financial Institutions (DFIs), Micro Finance Banks (MFBs) and NBFCs.

12. **Forced Sale Value (FSV)** means the value which can currently be obtained by selling the mortgaged/pledged assets under forced/distressed sale conditions.

13. **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.

14. **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:

(i) 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.

(ii) Control refers to an ownership directly or indirectly through subsidiaries, of more than one half of voting power of an enterprise.

(iii) Substantial ownership/affiliation means beneficial shareholding of more than 20% 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 regulations.

15. **Islamic Agri. Finance** means any form of financing extended for agricultural sector activities under Islamic modes of financing.

16. **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, Japan Credit Rating Agency (JCRA) 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 or JCRA . The indemnity for this purpose, should be similar to a guarantee i.e. unconditional and demand in nature.

17. **Market / Average Sales 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.

18. **NBFC** means Non-Banking Finance Company as defined in Section 282A of Companies Ordinance 1984 and includes Leasing Company, Housing Finance Company, Investment Bank, Discount House, Asset Management Company and a Venture Capital Company. For the purpose of these regulations Modaraba Company will also be considered as NBFC.

19. **PIU Value** means value of the agriculture land determined by the federal government on the basis of produce index units.

20. **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.

(i) **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.

(ii) **Other Form of Security**[1] 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, for example Electronic Warehouse Receipt (EWR) as defined under Collateral Management Companies Regulations 2019 issued by the SECP.

21. 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.

[1] Updated in line with AC&MFD Circular Letter No. 03 dated October 18, 2019 on "Prudential Regulations for Agriculture Financing-Electronic Warehouse Receipt".

Part-B: GENERAL REGULATIONS

Regulation R-1: Comprehensive Agriculture Financing Policy [2]

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, interalia cover:

(i) Loan administration, disbursement and appropriate monitoring mechanism.

(ii) Set up and maintenance of fully dedicated agri finance department/division/ unit equipped with qualified agri. financing experts and officers.

(iii) Delegation of powers/authority relating to approval / sanction of financing limits at appropriate level.

(iv) Development of an overall annual regional agricultural portfolio plan and assign targets for disbursement, growth in outstanding portfolio & number of borrowers to respective agri. designated branches. The concerned Regional Business Chiefs or Area Heads to be made responsible for the achievement of the targets.

(v) Significant increase in number of agri. designated branches and Agricultural Credit Officers in a phased manner, in proportion to the overall credit portfolio of the area and potential of agricultural activities.

(vi) Mechanism for implementation of Crop Loan Insurance Scheme 2008, introduced by Ministry of Finance, Government of Pakistan vide SRO No. 1(13)-Inv.II/2008 dated 13th August, 2008.

(vii) Use of standardized documents circulated vide ACD Circular No. 02 of August 11, 2010 and updated from time to time.

(viii) The policy shall cover different aspects related to financing against pledge of stock under EWR including list of eligible commodities, quality of collateral, valuation, price volatility, margin, limits, tenor of loans, diversification, insurance, substitution of collateral and managing collateral in the event of counter party default, etc.

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 interalia 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-2: 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. The decision

[2] Updated in line with AC&MFD Circular Letter No. 03 dated October 18, 2019 on "Prudential Regulations for Agriculture Financing-Electronic Warehouse Receipt".

for grant/ decline of credit must be conveyed to the borrower in writing within 10 working days of receiving of application.

For disbursement of all kinds of agri. loans, banks are advised to comply with instructions regarding standardization of turnaround time for loan processing contained in ACD Circular No. 02 of August 11, 2010.

REGULATION-R-3: Exposure Limits

(i) Single Person/Group Limit

Exposure Limits -for a single person and group effective from 31-12-2012 and onward would be as under:

Effective date	Exposure Limit as a % of Bank's/DFI's Equity (as disclosed in the latest audited financial statements)			
	For single person		For group	
	Total outstanding (fund and non-fund based) exposure limit	Fund based outstanding limit	Total outstanding (fund and non-fund based) exposure limit	Fund based outstanding limit
31-12-2012	30	20	30	25
31-12-2013	25	25	25	25
31-12-2014	20	20	25	25
31-12-2015	15	15	20	20

The group will cover both corporate entities as well as SMEs, in cases where such entities are owned by the same group.

(ii) Related Party Exposure Limit:

Exposure of a bank / DFI to its related party/group shall be as per following table:

Effective Date	Total Exposure Limit as a % of Bank's/DFI's Equity to its Related Party (as disclosed in the latest audited financial statements)	
	For Single Related Party	For Related Group
31-12-2013	7.5%	15%
31-12-2014	5%	10%

Regulation-R-4: Maximum Unsecured Financing [3]

Banks/DFIs shall not provide unsecured/clean financing facility in any form of a sum exceeding Rs.5.0 million (Rupees five million only) to any one person. Financing facilities granted without securities including those granted against personal guarantees shall be deemed as 'clean' for the purpose of this regulation. Further, at the time of granting a clean facility, banks/DFIs shall obtain a written declaration to the effect that the borrower in his own name or in the name of his family members, has not availed of such facilities from other banks/DFIs so as to exceed the prescribed limit of Rs.5.0 million in aggregate. All exposures in excess of Rs.5.0 million should be properly secured as defined in these Prudential Regulations.

The lending secured under Credit Guarantee Scheme managed & approved by SBP shall be treated as secured to the extent of guaranteed amount and the remaining portion shall be treated as clean exposure.

Regulation-R-5: Repayment Schedule and Relaxation to Agricultural Borrowers

The banks/DFIs are allowed to grant relaxation up to one year in repayment schedule, to their borrowers who have been adversely affected due to certain unforeseen and unexpected factors like weather, availability of water, etc. which are not under the control of the farmers. Such relaxation may be granted on case-to-case basis or en-block to the borrowers in the affected area.

Further, to prevent loan classification due to natural calamities, banks are encouraged to immediately stop recovery, suspend/defer mark-up accruals, and may issue instructions for waiving off outstanding markup or principal where the chances of recovery are not possible due to heavy natural calamities like earthquake, floods, heavy rains, epidemic diseases, etc. Banks may also formulate internal policies for creation of general reserves to cover any losses in the calamity hit areas. The policy in this regard should be duly approved by the board of directors of the concerned bank/DFI.

Wherever a relaxation under the above arrangements 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-6: 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.

[3] Updated in line with AC&MFD Circular Letter No. 02 dated September 19, 2022 on "Amendments in Prudential Regulations for Agriculture Financing - Enhancement in unsecured/clean financing limit and exposure limit for the requirement of audited financial statements".

Regulation-R-7: Credit Analysis and Other Conditions

(i) Credit Report

While considering proposals for any exposure (including renewal, enhancement and rescheduling/restructuring), Banks/DFIs should give due weightage to the credit report relating to the borrower and his group obtained from Credit Information Bureau (CIB) of State Bank of Pakistan. If the banks/DFIs decide to take exposure on defaulters, they should strictly follow their risk management policies and credit approval criteria and properly record reasons and justifications in the approval form. Banks/DFIs shall ensure that CIB report is not older than three months at the time of approval of credit limits.

(ii) Borrower Basic Fact Sheet (BBFS)

Before extending any financing facility, banks/DFIs would obtain information from the borrower as outlined in the BBFS (Annexure I-A for corporate borrowers and Annexure I-B for individual borrowers). For the convenience of the borrowers, banks/DFIs are also required to make the BBFS a part of their loan application form. The banks/DFIs do not need to obtain separate BBFS if the information required in it is a part of the Loan Application Form.

(iii) 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-8: 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-9: 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.

In case of Revolving Credit Scheme, based on their cropping cycle, banks may segregate the repayments in two stages i.e. at least 50% of the utilized credit during the year after harvest of each Rabi and Kharif crop. Total repayments in the loan account during the year equals to the maximum amount availed/ outstanding during the year shall also be treated as cleanup of the account.

Regulation-R-10: 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 or Moody's or Fitch-Ibca or JCRA.

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-11: Classification and Provisioning of Loans & Advances

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, cash flow, operation in the account, adequacy of the security inclusive of its realizable value and documentation covering the advances. Banks/DFIs shall observe the Prudential Guidelines given at Annexure-II in the matter of classification of their asset portfolio and provisioning there-against.

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 (i.e. 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.

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

(i) Banks/DFIs may avail the benefit of FSV subject to compliance with the following conditions:

   a) The additional impact on profitability arising from availing the benefit of FSV against the pledged stocks and mortgaged agricultural land, residential, commercial properties shall not be available for payment of cash or stock dividend.
   b) 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
   c) 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.

(ii) 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.

Banks/DFIs shall review, at least on a quarterly basis, the collectability of their loans/advances portfolio and shall properly document the evaluations so made. Shortfall in provisioning, if any, determined, as a result of quarterly assessment shall be provided for immediately in their books of accounts by the banks/DFIs on quarterly basis.

In case of cash recovery, other than rescheduling/restructuring, banks/DFIs may reverse specific provision held against classified assets, subject to the following:

(i) In case of Loss account, reversal may be made to the extent that the remaining outstanding amount of the classified asset is covered by minimum 100% provision.
(ii) In case of Doubtful account, reversal may be made to the extent that the remaining outstanding amount of the classified asset is covered by minimum 50% provision.
(iii) In case of substandard account, reversal may be made to the extent that the remaining outstanding amount of the classified asset is covered by minimum 20% provision.

While calculating the remaining provision required to be held after cash recovery and reversal of provision there-against, the banks/DFIs will enjoy the benefit of netting-off the amount of liquid from the outstanding amount, in the light of guidelines given in this regulation. Further, the provision made on the advice of State Bank of Pakistan will not be reversed without prior approval of State Bank of Pakistan.

The external auditors as a part of their annual audits of banks/DFIs shall verify that all requirements of Regulation R-14 for classification and provisioning for assets have been complied with. The State Bank of Pakistan shall also check the adequacy of provisioning during on-site inspection.

Part-C: SPECIFIC REGULATIONS

I. 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-12: Tenure, Classification and Provisioning

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 arrangement/ facility would eliminate the need to process the loan case on periodical basis and facilitate both the borrowers and banks/DFIs. Loans for farm input/ working capital would be classified as per Annexure-II. However, the relaxations allowed under Regulation R-5 are applicable.

II. LOANS FOR FARM DEVELOPMENT AND MACHINERY/ EQUIPMENT

Farm Development Finance is a medium to long-term loan extended by the banks/DFIs for making different types of improvements/ developmental work at the farm including construction of godown, and development of orchards, nurseries, etc. While the Machinery/ Equipment loan is the financing by the banks/DFIs for purchase of machinery and equipment to be used for agricultural purposes; like tractors, threshers, reapers/ harvesters, tube wells, etc.
All above loans i.e. for farm development & mechanization tools are of medium to long-term in nature i.e. 1 to 10 years.

Regulation-R-13: Tenure, Classification and Provisioning [4]

Loans for farm development can be extended for 1 to 10 years. Whereas the tenure of financing for machinery/equipment should not be allowed for more than the useful life of machinery/tool. However, all such loans should be allowed for a maximum period of 10 years. These loans i.e. for farm development and for purchase of machinery/ equipment would be classified as per Annexure-II. However, any relaxations given under Regulation R-5 would be applicable.

[4] Updated in line with AC&MFD Circular Letter No. 02 dated July 23, 2019 on "Amendment in Loans for Farm Development and Machinery/ Equipment, Regulation R-13 (Tenure, Classification and Provisioning) and Regulation R-15 (Tenure) of Prudential Regulations for Agriculture Financing".

Regulation-R-14: 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 all other machinery and equipment financed by them to protect their interest.

III. 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. Livestock financing can be made for working capital as well as for development purposes. As such, these loans are usually short to long term in nature.

Regulation-R-15: Tenure [5]

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

Regulation-R-16: Security

Besides all familiar and generally acceptable securities, the banks/DFIs at their own discretion can accept livestock as an exclusive or partial security for livestock financing. 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-17: 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 primary/sole 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-18: Classification and Provisioning

Since the financing requirement of livestock sector is of both short-term (working capital) as well as of long term loans, therefore, the loans to this sector are categorized under both the working capital and the development or long term loans. Thus, the loans for livestock shall be classified as per their loan category in accordance with **Annexure II**.

[5] Updated in line with AC&MFD Circular Letter No. 02 dated July 23, 2019 on "Amendment in Loans for Farm Development and Machinery/ Equipment, Regulation R-13 (Tenure, Classification and Provisioning) and Regulation R-15 (Tenure) of Prudential Regulations for Agriculture Financing".

IV. CORPORATE FARMING

In case of Corporate Farming, in addition to the regulations prescribed above and all other applicable rules/ regulation of Commercial Banking and SME Financing etc., following regulations shall also apply.

Regulation-R-19: Linkage between Financial Indicators of the Borrower and Total Exposure from Financial Institutions

The Board of Directors of the bank/DFI shall approve a credit policy prescribing a minimum current ratio and linkage between borrower's equity and its total financing facilities from all financial institutions. The Credit Policy shall emphasize upon higher credit standards and provide full guidance to the management about the above requirements for various categories of clients and corresponding risk mitigants etc. acceptable to the bank/DFI. The policy shall also have explicit provisions for circumstances or conditions under which the bank/DFI may extend financing facilities to the borrower with negative equity, should the bank decide to do so.

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

Regulation-R-20: Copy of Audited Accounts Where Exposure Exceeds Rs. 15 Million [6]

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.15 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.15 million. Further, financial statements signed by the borrower will suffice where the exposure is fully secured by liquid assets.

[6] Updated in line with AC&MFD Circular Letter No. 02 dated September 19, 2022 on "Amendments in Prudential Regulations for Agriculture Financing - Enhancement in unsecured/clean financing limit and exposure limit for the requirement of audited financial statements".

Annexure I-A: Borrower's Basic Fact Sheet
(For Corporate Prescribed Under Prudential Regulation R-7)

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 1st Year		Amount during 2nd Year		Amount during 3rd 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

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 1st Year	During 2nd Year	During 3rd 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)

Annexure I-B: Borrowers Basic Fact Sheet

(For Individuals Prescribed Under Prudential Regulation R-7)

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)

Annexure II: Guidelines in the Matter of Classification **& Provisioning for Assets (Regulation R-11)**

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	**<u>Production/Working Capital Loan</u>** Where mark-up/ interest or principal is overdue by one year and a half or more from the due date. **<u>Development/Term Finance</u>** Where mark-up/ interest or principal is overdue by two year 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.
CLASSIFICATION	**DETERMINANT**	**TREATMENT OF INCOME**	**PROVISIONS TO BE MADE**

(1)	(2)	(3)	(4)
4. Loss	**<u>Production/Working Capital Loan</u>** Where mark-up/ interest or principal is overdue beyond two years or more from the due date. **<u>Development/Term Finance</u>** 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.

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.