Regulation R – 8: Classification of Assets and Provisioning Requirements

Uniform Criteria for Determining the Value of Pledged Stock, Plant & Machinery under Charge and Mortgaged Properties for Microenterprise Loans/ Advances

MFBs are allowed to take the benefit of Forced Sale Value (FSV) of pledged stocks, plant & machinery under charge, and mortgaged residential, commercial and industrial properties held as collateral against Non-Performing Loans (NPLs) for calculating provisioning requirements as tabulated below:

Category of Assets	Forced Sale Value Benefit allowed from the date of classification
Mortgaged residential, commercial and industrial properties (Land & building only).	• 75% for first year • 60% for second year • 45% for third year • 30% for fourth year, and • 20% for fifth year
Plant & Machinery under charge.	• 30% for first year • 20% for second year, and • 10% for third year
Pledged stock.	• 40% for first, second, and third year

The benefit of FSV against NPLs shall not be available after the periods prescribed above.

1. While taking benefit of FSV and arriving at its value, the following minimum points shall be taken into account:

a) At the time of classification, valuation shall not be more than 3 years old.
b) Valuations of properties valuing above Rs. 3.0 million shall be carried out by an independent professional evaluator who should be listed on the panel of evaluators maintained by the Pakistan Banks' Association (PBA).
c) Only liquid assets, pledged stock, plant & machinery under charge and property having registered or equitable mortgage shall be considered for taking benefit for provisioning, provided no NOC for creating further charge to another MFB/bank/ DFI/ NBFC has been issued by the MFB.
d) Assets having pari-passu charge shall be considered on proportionate basis.
e) Hypothecated assets and assets with second charge & floating charge shall not be considered for taking the benefit for provisioning purposes.
f) The evaluator, while assigning any values to the pledged stock, plant and machinery under charge and mortgaged residential, commercial and industrial properties (land and building only), shall take into account all relevant factors affecting the salability of such assets including any difficulty in obtaining their possession, their location, condition and the prevailing economic conditions in

the relevant sector, business or industry. The values of pledged stock, plant and machinery under charge and mortgaged property so determined by the evaluators have to be reasonably good estimate of the amount that could currently be obtained by selling such assets in a forced/ distressed sale condition. The evaluators should also mention in their report, the assumptions made, the calculations/ formulae/ basis used and the method adopted in determination of FSV.

g) In cases where the evaluators are not allowed by the borrowers to enter in their premises, the benefit of FSV shall not be accepted for provisioning purposes.

h) The additional impact on profitability arising from availing the benefit of FSV against pledged stocks, plant and machinery under charge, and mortgaged residential, commercial and industrial properties (land and building only) shall not be available for payment of cash or stock dividend.

2. Any misuse of FSV benefit detected during regular/ special inspection of SBP shall attract strict punitive action under the relevant provisions of Microfinance Institutions Ordinance 2001. Further, SBP may also withdraw the benefit of FSV from the MFB found involved in its misuse.

3. Various categories of assets to be considered for valuation would be as under:

i. **Liquid Assets:**

Valuation of Liquid Assets shall be determined by the MFB itself and verified by the external auditors.

ii. **Mortgaged Property and Plant & Machinery under Charge:**

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

iii. **Pledged Stocks:**

In case of pledged stocks of perishable and non-perishable goods (including stock pledged under Electronic Warehouse Receipt (EWR) as defined in Collateral Management Companies Regulations 2019 issued by the SECP), FSV should be provided by evaluators, and such valuation should not be more than six months old, at each balance sheet date. The goods should be perfectly pledged in favour of MFB and relevant documents should be available. In case of perishable goods, the evaluator should also give the approximate date of complete erosion of value of pledged stock.

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