

Provisioning Policy for Non performing exposures  
For funds under management of  
Alfalah GHP Investment Management Limited

**PROVISIONING POLICY – COLLECTIVE INVESTMENT SCHEMES OF ALFALAH GHP INVESTMENT MANAGEMENT**

**OWNER: PORTFOLIO MANAGEMENT DEPARTMENT**

**DATE : 2009**

**1. PREAMBLE**

The Provisioning Policy is formulated to define the provisioning requirements which are over and above the provisioning requirements prescribed under SECP Circular 1 of 2009.

**2. ELIGIBILITY CRITERIA FOR MAKING PROVISION**

The advent of the following events makes the debt securities and other exposures eligible for provisioning;

- a. Default on the interest payment
- b. Default on the principal payment
- c. Rating of the debt security / borrower is down graded to “D” (Default)
- d. In the event of bankruptcy

Further following securities are eligible for the provision against the non performance;

- a. Debt Securities
  - i. Term Finance Certificates (TFCs)
  - ii. Privately Placed Certificates (PPTFCs)
  - iii. Sukuk / Ijara Certificates
  - iv. Commercial Papers
- b. Other Exposures
  - i. Term Deposit Certificates (TDR)
  - ii. Certificate of Investments (COI)
  - iii. Certificate of Deposits (COD)
  - iv. Letter of Placements (LOP)
  - v. Certificate of Musharaka (COM)

**3. CRITERIA FOR CLASSIFICATION AS NON PERFORMING EXPOSURE**

**Debt Securities**

Debt security shall be classified as non-performing, if the interest and / or principal amount is past or overdue by 15 calendar days from the due date.

**Other exposures**

Exposures other than debt securities such as TDR, COI, COD, LOP, COM etc shall be immediately classified as non-performing if the interest and / or principal amount past the due date.

However, full provisioning shall be made immediately if the applicable rating of the debt security is down graded to “D” (Default).



#### 4. PROVISIONING REQUIREMENTS & TIME FRAME FOR MAINTAINING THE APPLIED PROVISIONS

##### Debt Securities

All non-performing debt securities whether secured or unsecured shall be provided for in accordance with the following criteria;

##### **For TFCs, PPTFCs, & Sukuk;**

With Semi-annual & Annual coupons

Effective day for Provisioning	Minimum Provision as % of book value	Cumulative Provision
Upto 180 <sup>th</sup> days	50%	50%
Upto 365 <sup>th</sup> days	50%	100%

With Quarterly & Monthly coupons

Effective day for Provisioning	Minimum Provision as % of book value	Cumulative Provision
Upto 90 <sup>th</sup> days	50%	50%
Upto 180 <sup>th</sup> days	50%	100%

##### **For Commercial Papers & Other exposures**

All non-performing Commercial Papers and other exposures whether secured or unsecured shall be provided in the remaining number of days of the current financial year.

#### 5. CRITERIA FOR SUSPENSION OF MARK UP

- a. The accrual of interest / profit shall be suspended from the first day the interest / profit payment falls due and is not received.
- b. All interest / profit accrued and recognized in the books of Collective Investment Scheme shall be reversed immediately once a debt security and exposures other than debt securities is classified as non – performing.

#### 6. CRITERIA FOR REVERSAL OF PROVISIONING

##### **Debt Securities**

- a. In case a Collective Investment Scheme has received all the arrears of interest, the interest amount reversed shall be written back to the extent it is received.
- b. In case a Collective Investment Scheme has received all arrears of interest and the debt security has not been reclassified as performing, the suspension of further accrual of interest shall continue.
- c. The debt security shall only be reclassified as performing once all the arrears have been received in cash and debt security is regular on all payments (interest as well as principal as per applicable redemption schedule) for the next two (2) instalments. The provision made for the principal amount shall be written back in the following manner.
  - i. Where provision of principal was made due to the interest defaults only, 100% of the debt security provided for in the books shall be written back upon reclassification of the debt security as performing.



- ii. Where both instalments and interest were in defaults, 50% of the provision made in the books shall be written back at the receipt of the first payment (interest/principal) and 50% at the receipt of second payment and the asset shall be reclassified as performing.
- d. The debt security shall also be classified as performing if the issuer re-schedules the terms and conditions of the debt security and majority of the debt security holders agree to it.

**Other exposures**

Other Exposures reversed previously shall only be written back to the extent the Collective Investment Scheme has received the arrears of interest along with the principal amount.

**7. REQUIREMENTS FOR DISCLOSURE**

- a. Provisioning policy will be uploaded to the website so that all the unit holders and the prospective investors can review the policy at any time.
- b. Provisioning policy will be disseminated to all the unit holders through emails / postal mails.
- c. Provisioning policy shall be incorporated in the Constitutive documents of all the schemes after meeting all the regulatory requirements.
- d. All unit holders will be informed through the FMR that they can review the provisioning policy by visiting our website or they can visit the office premises to get a copy of the policy in the business hours on any business day.

