

Alfalah GHP Investment Management Limited

Provisioning Policy for Non performing exposures

Owner: Portfolio Management Department

Revised 1st July 2011

Approved By:

Abdul Aziz Anis
Chief Executive Officer

PROVISIONING POLICY – COLLECTIVE INVESTMENT SCHEMES OF ALFALAH GHP INVESTMENT MANAGEMENT

OWNER: PORTFOLIO MANAGEMENT DEPARTMENT

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. Definition

For the purpose of this policy following terms are to be understood as defined

2.1. **Exposure** includes both debt security and other exposure

2.2. **Debt Securities** which means and includes;

- a) Term Finance Certificates (TFCs) of all types
- b) Sukuk / Ijara Certificates
- c) Commercial Papers
- d) Bonds
- e) Debentures

2.3. **Other Exposures** which means and includes;

- a) Term Deposit Receipts (TDR)
- b) Certificates of Investment (COI)
- c) Certificates of Deposit (COD)
- d) Letters of Placement (LOP)
- e) Certificates of Musharaka (COM)
- f) Other Money Market Placements

3. 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. Default of both interest and principal payment
- d. Rating of the debt security or borrower is down graded to "D" (Default)
- e. In the event of bankruptcy of the issuer

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

4. ELIGIBILITY CRITERIA FOR CLASSIFICATION AS A NON PERFORMING ASSET (NPA)

4.1. Debt Securities

- a) A Debt security shall be classified as non-performing, if the interest / profit and / or principal amount is / are past or overdue by 15 calendar days from the due date or on intimation from the issuer of his inability to make payment within 15 calendar days from the due date or on receipt of post dated instrument for payment for a date beyond 15 calendar days from the due date.

4.2. Other Exposures

- a) Other Exposures shall be immediately classified as non-performing if the interest / profit and / or principal amount is past the due date.



5. PROVISIONING REQUIREMENTS & TIME FRAME FOR MAINTAINING THE APPLIED PROVISIONS**5.1. Debt Securities**

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

Effective day for Provisioning	Minimum Provision as % of book value	Cumulative Provision
90 th Day	20%	20%
180 th Day	10%	30%
270 th Day	15%	45%
365 th Day	15%	60%
455 th Day	Balance	100%

5.2. Other exposures

All non-performing Other Exposure as classified under eligibility criteria whether secured or unsecured shall be provided for in accordance with the following criteria;

Effective day for Provisioning	Minimum Provision as % of book value	Cumulative Provision
90 th Day	20%	20%
180 th Day	10%	30%
270 th Day	15%	45%
365 th Day	15%	60%
455 th Day	Balance	100%

- 5.3. Where the debt security immediately preceding its classification as non-performing is valued at a discount to its outstanding principal amount, such discount may be accounted for while arriving at the minimum provision. However, if any such discount exceeds the requisite provisioning, the excessive discount shall not be written back and the debt security shall be carried at the existing value upon classification as non-performing.
- 5.4. The Management Company with the approval of Investment Committee (with reason in writing) may exercise discretion with respect to the timing for creating requisite provision against exposures such as immediately on the day of classification as non-performing or spreading it over the number of days, as deemed appropriate in the best interest of Unit holders. However, the minimum provision on effective day shall be in accordance with the above schedule.
- 5.5. In addition to the minimum provision prescribed in note 5.1 and 5.2 any instalment of principal amount in arrears of an exposure (including debt securities) during the period of non-performance shall also be fully provided.
- 5.6. The above criteria outlines the minimum provision requirement for non-performing exposures as classified by MUFAP in compliance with Circular 1 of 2009, however if the circumstances warrant, the Management Company with the approval of its Board may provide for more than the minimum provision requirement given in the above table.
- 5.7. As required by SECP through Circular No. 3 of 2010 the Management Company shall not provide for against a performing debt security.



6. CRITERIA FOR SUSPENSION OF INTEREST / PROFIT ACCRUAL

- a. All interest / profit accrued and recognized due but the payment has not been received in the books of Collective Investment Scheme shall be reversed immediately once a debt security and other exposures (other than debt securities) are classified as non – performing.
- b. Further accrual of interest / profit of performing debt security shall be suspended if the interest / profit payment falls due and is not received past or overdue by 15 calendar days from the due date
- c. The accrual of interest / profit shall be suspended till the time the exposure (including debt securities) is reclassified as performing. However any interest / profit received (either full or partial) in the interim shall be taken to the income to the extent it is received.
- d. In case a Collective Investment Scheme has received all arrears of interest and debt security has not been reclassified as performing, the suspension of interest shall continue.

7. CRITERIA FOR RECLASSIFICATION OF EXPOSURES

7.1. Debt Security

- a) Where a debt security which is classified as non-performing due to non-payment of interest / profit and / or principal subsequently performs as per the original repayment terms, and arrears of interest / profit are duly received, such debt security shall immediately be reclassified as performing.

7.2. Other Exposure

- a) Other Exposures shall be reclassified as performing once all arrears of interest and principal have been received in full

8. CRITERIA FOR REVERSAL OF PROVISIONING ON RECLASSIFICATION

8.1. Debt Securities

- a) Once the debt security is classified as performing as defined in clause 7.1.a above, the provision made against such security shall be written back immediately.
- b) However while making reversal of provision it must be ensured that the reversal price should not exceed the price of the debt security available immediately preceding the classification of the debt security as non-performing.
- c) As required by SECP through Circular No. 3 of 2010 the Management Company shall not provide for against a performing debt security.

8.2. Other exposure

- a) Reversal of provision in case of other exposure shall be made to the extent arrears of interest and principal are received.

9. CRITERIA FOR REVERSAL OF INTEREST / PROFIT ON RECLASSIFICATION

In case a Collective Investment Scheme has received all the arrears of interest / profit, the interest / profit amount provided for shall be written back to the extent it is received.

10. RECLASSIFIED DEBT SECURITIES



10.1.If a debt security is classified as non-performing and it undergoes a restructuring arrangement, it shall only be reclassified as performing if it is regular on all future payments (interest as well as principal) as per the restructured terms and condition for next two instalments. Any further provisioning of the restructured debt security in terms of clause 5.1 will be discontinued. The provision made for the principal amount shall be written back in the following manner

- a. Where provision of principal was made due to the interest / profit defaults only, upto 100% of the amount provided for in the books shall be written back upon reclassification of the debt security as performing.
- b. Where principal and interest / profit were both in default, upto 50% of the provision made in the books shall be written back at the receipt of the first instalment (interest/principal) and 50% at the receipt of second instalment (interest/principal), and the asset shall be reclassified as performing.
- c. Full provision made with respect to overdue principal shall be written back to the extent it is received in cash.

10.2.While making reversal of provision it must be ensured that the reversal price should not exceed the debt security price available immediately preceding the debt security classification as non-performing.

10.3.However Investment Committee (with reason in writing) may exercise discretion to continue further provisioning of the restructured debt security till the time the next two instalments of interest as well as principal is/are received.

10.4.Before a restructured debt security is classified as performing, payment of both interest/profit and principal will be recorded / booked on receipt basis.

11. REQUIREMENTS FOR DISCLOSURE

11.1.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.

11.2.Provisioning policy will be disseminated to all the unit holders through emails / postal mails.

11.3.Provisioning policy shall be incorporated in the Constitutive documents of all the schemes after meeting all the regulatory requirements.

11.4.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.

12. If any provision/clause of this policy are in contravention of the requirement of SECP circulars, notifications, guideline, letters, etc and the requirement of NBFC Regulations, NBFC Rules issued from time to time the requirement of SECP circulars, notifications, guideline, letters, etc and the requirement of NBFC Regulations, NBFC Rules shall prevail

History of Policy approval revision

- Version V.1 Policy approved by Board through circular resolution No. 47 dated May, 7 2011
- Version V.2 Policy amended in 41st Board of Directors meeting of the Company held on April 22nd 2011

