



Alfalah Investments

AGIML POLICY

PROVISIONING



Policy Approval Date: 15-Feb-2013
Policy Version: Version 1.1

Section 1. PREAMBLE

The Provisioning Policy is formulated to define the provisioning requirements which are over and above the provisioning requirements prescribed under SECP Circular 33 of 2012.

Section 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

Section 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 downgraded to "D" (Default)
- e. In the event of bankruptcy of the issuer

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

Section 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.

Section 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 from the day of classification as nonperforming;

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	10%	40%
365 th Day	10%	50%
455 th Day	10%	60%
545 th Day	10%	70%
635 th Day	10%	80%
725 th Day	10%	90%
815 th Day	10%	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%

- 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.

- In the process of arriving at minimum provision against non-performing debt securities as per timeline given above 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.
- 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.
- The above criteria outlines the minimum provision requirement for non-performing exposures in compliance with Circular 33 of 2012, 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. This fact shall be disclosed in quarterly, half-yearly and annual accounts of the collective investment schemes.
- As required by SECP through Circular No. 3 of 2010 the Management Company shall not provide for against a performing debt security.

Section 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 from the first day the interest/profit payment falls due and is not received.
- 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 the debt security has not been reclassified as performing, the suspension of interest shall continue.

Section 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, such security shall only be reclassified as performing once all the arrears have been received in cash and the debt security is regular on all payment (interest/profit and/or principal) for the next two instalments.

7.2. OTHER EXPOSURE

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

Section 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) The unrealized interest/mark-up amount reversed shall be written back to income up to the extent it is received in cash
- d) In case of non-performing debt security the provision made for the principal amount shall be written back to the extent it is received in cash and the remaining provision shall cover the minimum provision required.
- e) As required by SECP through Circular No. 33 of 2012 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.

Section 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.

Section 10. RESTRUCTURED 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 all the following conditions are met

- a. The terms and conditions of rescheduled/restructures debt security are fully met for a period of atleast one year; and
- b. All the arrears (till the date of restructuring) have been received in cash;
- c. An amount equivalent to two instalments (Excluding grace periods, if any) as per original repayment term (before rescheduling) are paid in cash.

10.2. During rescheduling/restructuring period the Management Company may stop creating additional provisioning against restructured and rescheduled debt security. If the debt security subsequently did not perform as per rescheduling/restructuring agreement the debt security shall be treated as non-performing from the date of its original defaults.

10.3.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.

Section 11. APPLICATION OF DISCRETIONARY DISCOUNT

- a) The management company shall have discretion to apply mark-up/mark-down (within the available limit as specified below) to yield of any specific debt security
- b) Discretionary mark-up/mark-down shall be applied to take into account the following aspects associated with specific debt security
- c) Illiquidity risk
- d) Sector Specific risk
- e) Issuer Class risk
- f) Mark-up/mark-down shall be determined on the basis of whether the issue is rated or unrated as per table below.

	Rated	Un-rated
Duration up to 2 years	+200/- 100 bps	+50 bps
Duration over 2 years	+150/-50 bps	+50 bps

- g) Application of discretionary mark-up/mark-down shall be approved by the Investment Committee (with proper written justification) and shall be reported on the same day to the Board of Directors (of Management Company), MUFAP, SECP and the Trustee. The decision in relation to application of discretionary mark-up/mark-down shall be rectified by the Board of the Management Company in the next BOD meeting
- h) Discretionary mark-up/mark-down, if applied, shall be reviewed fortnightly or on occurrence of any significant change in the financial markets by the Investment Committee.

Section 12. 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.

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
- Version V.2 Policy amended in 50th Board of Directors meeting of the Company held on February 15th 2013

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