POLICY FOR PROVISIONING OF DEBT SECURITIES

The Securities & Exchange Commission of Pakistan vide its circular No. 1 dated January 6, 2009, prescribed the criteria for making provisions against non performing debt securities held by the Collective Investment Schemes (CIS). In continuation of the above circular, SECP vide its circular No. 13 dated May 04, 2009 has made it mandatory for all Asset Management Companies to formulate a comprehensive provisioning policy for making any additional provision over and above the required provision as laid out in the Circular No. 1 dated January 6, 2009 against debt securities or any other exposure held by the CIS.

In this connection following policies are presented to the Board of Directors for approval:

A. Policy for making time based provisioning for securities as defined in SECP's Circular No. 1 dated January 6, 2009. This Policy will also cover any excess provisioning that may be instituted at the discretion of the Investment Committee for such securities.
   a. Guidelines for provisioning of Performing Securities
   b. Guidelines for provisioning of Non-Performing Securities

B. Policy for making time based provisioning against Exposures (other than those defined as Security in Circular No. 1 dated January 6, 2009).

C. Policy aspects common for Debt Securities covered in SECP Circular No.1 dated January 6th, 2009 and all other exposures.

A. POLICY FOR MAKING TIME BASED PROVISIONING FOR DEBT SECURITIES AS DEFINED IN SECP'S CIRCULAR NO. 1 DATED JANUARY 6, 2009.

Time based provisioning of debt securities under SECP's circular No.1 has the underlying guidelines;

- A debt security shall be classified as non-performing, if the interest and / or principal amount is overdue by 15 calendar days from the due date;
- The accrual of interest / profit shall be suspended from the first day the interest / profit payment falls due and is not received;
- All interest / profit accrued and recognized in the books of the CIS shall be reversed immediately once a debt security is classified as non-performing;
- All non-performing debt securities whether secured or unsecured shall be provided for in accordance with the following criteria from the day of classification as non-performing:

Effective Day of Provisioning	Minimum Provision as % of book value (outstanding principal amount)	Cumulative Provision
90th Day	20%	20%
180th Day	10%	30%
270th Day	15%	45%
365th Day	15%	60%
455th Day	Balance	100%

- In addition to the minimum provision mentioned above, any installment of principal amount in arrears during the period of non-performance shall also be fully provided.
- Any modifications to the above mentioned circular by the Regulator from time to time will be deemed as a modification in the provisioning policy.

ACCELERATED PROVISIONING AT THE DISCRETION OF THE INVESTMENT COMMITTEE

a. For performing debt securities, the Investment Committee shall decide if any provision is required after considering the following factors:

- Significant financial difficulties of the issuer;
- It is probable that the issuer will breach a contract, such as default or delinquency in interest or principal or principal payment;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;
- Deteriorating credit history;
- Deterioration of key financial ratios;
- Deterioration of historical as well as forecasted cashflows;
- Worsening operating conditions;
- Adequacy of the security, its realizable value and documentation covering the exposure;
- An expected credit rating down grade of the issuer and/or the particular debt security;
- A credit rating down grade of the issuer and/or the particular debt security;
- Observable data that indicate that there is a measurable decrease in cash flows of the issuer; and
- Violation of debt covenants
- Economic condition and outlook and its particular emphasis on the industry in which the issuer operates.

b. For non-performing debt securities (as defined in SECP Circular 1 of 2009, dated January 6th, 2009), the Investment Committee shall decide if provisioning in excess of the time based criteria specified by SECP's Circular No. 1 of 2009 is required. The Investment committee will decide after thorough due diligence and will consider the following factors:

- Significant financial difficulties of the issuer;
- It is probable that the issuer will breach a contract, such as default or delinquency in interest or principal or principal payment;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;
- Deteriorating credit history;
- Deterioration of key financial ratios;
- Deterioration of historical as well as forecasted cashflows;
- Worsening operating conditions;
- Adequacy of the security, its realizable value and documentation covering the exposure;
- An expected credit rating down grade of the issuer and/or the particular debt security;

- A credit rating down grade of the issuer and/or the particular debt security;
- Observable data that indicate that there is a measurable decrease in cash flows of the issuer; and
- Economic condition and outlook and its particular emphasis on the industry in which the issuer operates.

CRITERIA FOR REVERSAL OF PROVISIONS ON PERFORMING AND NON-PERFORMING SECURITIES AND RECLASSIFICATION OF NON-PERFORMING SECURITIES AS PERFORMING

For securities classified as Non Performing, the following guidelines shall be followed for reversal of provisions booked;

- Debt Securities shall only be reclassified as performing once all the arrears have been received and debt security is regular on all payments (interest as well as principal) for next two installments. The provision made for the principal amount shall be written back in the following manner:
    - Where provision of principal was made due to mark up / profit defaults only, 100% of the debt security provided for in the books shall be written back upon reclassification of the debt security as performing.
    - Where both installments and interest were in default, 50% of the provision made in the books shall be written back at the receipt of first payment and 50% at the receipt of second installment and the asset shall be classified as performing.
- Where the Investment Committee has provided for a security in excess of the requirements of Circular No. 1 of 2009, it can be reversed on the decision of the Investment Committee after reviewing each such case in detail and to the extent that it meets the minimum time based requirements of the circular. However, such a reversal can only be made after at least one (1) month from the application of the excess discount.
- Where any exposure to a debt security classified as non-performing undergoes restructuring, the exposure shall be treated as performing if the security fulfills all the requirements and formalities of restructuring for the subsequent three (3) month period after the date of rescheduling. As per this date, any provision and suspended mark up shall be written back to income to the extent and as per the terms and conditions of the restructuring arrangement. The CIS shall thereafter accrue mark up for the further periods as per the profit / mark-up rates agreed in the restructuring arrangement.

Incase performing securities have been provided for on the decision of the Investment Committee, the following guidelines shall be followed for reversal of provisions booked;

- The provisions made on debt securities shall be reversed upon the decision of the Investment Committee (made after at least 3 months from the application of provisions).
- The entire amount of markup/principal that is provided for shall be written back in full upon such a decision and subsequently all income/markup/profit shall be accrued for the purposes of net asset value calculation.

B. POLICY FOR PROVISIONING AGAINST EXPOSURES (OTHER THAN THOSE DEFINED AS DEBT SECURITY IN CIRCULAR NO. 1 DATED JANUARY 6, 2009)

Certain exposures held by the CIS may be classified as non-performing by the Investment Committee when the principal and/or the profit is overdue by 30 days. Such a non-performing exposure shall be provided for according to the following minimum time based provisioning guidelines;

Post – Effective Day of Classification as NPA	Minimum Provision as % of book value (outstanding principal amount)	Cumulative Provision
90th Day	10%	10%
180th Day	20%	30%
270th Day	20%	50%
365th Day	20%	70%
455th Day	Balance	100%

- Upon completion of the 30 day period, Profit / Mark-up (which is not received in cash) already accrued on any exposure classified as NPA shall be provided for.
- Accelerated provisioning, if the situation warrants, is allowable as well at the discretion of the IC. The pace of such excess provisioning may be varied based on considerations such as progress on recoverability / restructuring discussions with the counter-party – however, in all cases, the minimum provisioning based on the above time based schedule will require adherence.
- No general provisions shall be made against exposures held by the CIS, unless specially required by the regulations.

Criteria for Reversal of Provisions and Reclassification of non-performing exposures as performing

- Where the provision is made against such exposure (other than debt security), it can be reversed on the decision of the Investment Committee after reviewing each such case in detail. However, such a decision can only be made after atleast one (1) month from the date when it was provided for.
- Where any exposure classified as non-performing undergoes a successful restructuring with the CIS or group of creditors, the exposure shall be treated as performing if the exposure fulfills all the requirements and formalities of such restructuring for a period of three (3) months from the date of restructuring. After completion of such period, any provision and suspended mark up shall be written back to income in full to the extent and as per the terms and conditions of the restructuring arrangement. Thereafter, the CIS shall accrue profit / mark up for further periods as per the terms and conditions agreed upon in the restructuring arrangement.

C. POLICY ASPECTS COMMON FOR DEBT SECURITIES COVERED BY SECP CIRCULAR NO.1 DATED JANUARY 6th, 2009 AND ALL OTHER EXPOSURES (WITHOUT CLASSIFYING ASSETS AS NPA)

Provisioning and Halting of accruals at the discretion of the Investment Committee prior to contract maturity/receipt of coupon payment (without classifying as NPA):

- In certain cases, where the Investment Committee feels that there is potential negativity / chances of non-recoverability associated with a particular counter party / security issuer based on market feedback and factors including the ones mentioned below, the option of suspending further mark-up accrual till the date of maturity of the contract / receipt of coupon payment will be available (without classifying as NPA).
- In cases where the investigation overwhelmingly points to chances of non-recoverability, the IC can declare such exposure as NPA anytime after such observations and prior to contract maturity. In such cases, the provisioning schedule as outlined in the grids of the respective sections above will be applicable. Various factors as outlined below will be used to gauge the financial standing of the counter party / security issuer:
    - Significant financial difficulties of the issuer;
    - It is probable that the issuer will breach a contract, such as default or delinquency in interest or principle or principle payment;
    - It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
    - The disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;
    - Deteriorating credit history;
    - Deterioration of key financial ratios;
    - Deterioration of historical as well as forecasted cashflows;
    - Worsening operating conditions;
    - Adequacy of the security, its realizable value and documentation covering the exposure;
    - An expected credit rating down grade of the issuer and/or the particular debt security;
    - A credit rating down grade of the issuer and/or the particular debt security;
    - Observable data that indicate that there is a measurable decrease in cash flows of the issuer; and
    - Economic condition and outlook and its particular emphasis on the industry in which the issuer operates.

WRITING OFF FULLY PROVIDED EXPOSURE
Provisions shall be maintained for a period of two years after being fully provided, and thereafter the exposures (other than those in recovery suits) may be written off, after obtaining specific approval from the Board of Directors.

DISCLOSURE OF PROVISIONING POLICY

- These Provisioning Policies after the approval by the Board of Directors shall immediately be disseminated to the existing Unit Holders, Trustee(s) and the Commission.
- The policies shall also be placed on the Company's website for the information of all the existing and prospective investors.
- Provisioning made in light with the above policies shall be disclosed in the quarterly, half yearly and annual financial statements of the CIS.