



POLICY FOR PROVISIONING OF DEBT SECURITIES AND OTHER FIXED INCOME EXPOSURES

Background

- SECP, vide its circular # 1 dated January 06, 2009 (Annexure II) and two additional Circulars (Circular # 6 dated March 06, 2009 and Circular # 3 dated January 20, 2010) had prescribed the criteria for making provisions against non performing debt securities held by the Collective Investment Schemes (CIS). In continuation to this, Circular # 13 dated May 04, 2009 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 # 1 of 2009.
- Later in 2012, SECP issued Circular # 33 dated October 24, 2012 pertaining to the matter of provisioning criteria, which replaced the Annexure II of Circular # 1 of 2009 and its ensuing two circulars (Circular No. 6 of 2009 dated March 6, 2009 and Circular No. 3 of 2010 dated January 20, 2010) on this matter.
- Major changes in the provisioning requirements brought about by this new circular(circular 33 of 2012) are the following:
 - The time based criteria whereby the number of days over which 100% provisioning was supposed to be carried out has been changed from 455 days to 815 days.
 - Reclassification of debt securities
 - Criteria clearly separated for non-performing securities and rescheduled/restructured non-performing securities
 - For rescheduled/restructured non-performing securities, a new requirement has been added whereby the terms and conditions of rescheduling/restructuring shall have to be complied for one year.
- Presented hereunder is the revised/updated provisioning policy of Al Meezan Investment Management Limited aligned with the requirements of this latest circular # 33 of 2012 dated October 24, 2012. The salient features of this policy are:
 - Scope of the policy
 - Eligibility criteria to be classified as a debt security
 - Policy for classification as a non-performing exposure
 - Policy for making time based provisioning for securities
 - Policy for suspension of markup/profit
 - Policy for excess provisioning at AMC's Management's discretion
 - Policy for reclassification
 - For non-performing assets
 - For rescheduled/restructured non-performing assets
 - Policy for reversal of provisioning
 - Policy for provisioning of exposures other than those classified as debt securities



Provisioning Policy

1. Scope of this Provisioning Policy

This policy shall cover the provisioning requirements of all fixed income funds under the management Al Meezan Investment Management Limited and shall include the Pension and Balanced Funds as well.

2. Eligibility criteria to be classified as a debt security

For the purpose of this Policy a “debt security” means any security issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital and includes term finance certificates, bonds, debentures, Sukuks, commercial papers, certificate of investment (COI), certificates of deposits (COD) certificate of Musharika (COM) and placements with banks.

3. Criteria for classification as a non-performing exposure

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.

4. Policy for making time based provisioning for securities

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 for Provisioning	Minimum Provision as % of book value (outstanding principal amount)	Cumulative Provision
90th day	20%	20%
180th day	10%	30%
270th day	10%	40%
365th day	10%	50%
455th day	10%	60%
545th day	10%	70%
635th day	10%	80%
725th day	10%	90%
815th day	10%	100%

The AMC may exercise discretion with respect to the timing for creating the requisite provision such as immediately on the day of classification as non-performing or spreading it over a number of days as deemed appropriate in the best interest of the unit holders. However, the minimum provision on effective day shall be in accordance with the schedule given above.

Where a 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 debt security shall be carried at the existing value upon classification as non-performing.

In addition to the minimum provision mentioned above, any installment of principal amount due during the period of non-performance shall also be fully provided.



If the rating of a security falls below investment grade, a 25% provision/discount shall be recognized. If the non-investment grade security becomes non-performing, the provisioning shall be accounted as per the time based criteria mentioned above.

5. Criteria for suspension of markup

- 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.
- In case a CIS has received all arrears of interest and the debt security has not been reclassified as performing, the suspension of interest shall continue.

6. Policy for excess provisioning at AMC's Investment Committee's discretion

The Investment Committee shall decide if provisioning in excess of the time based criteria specified by the subject circular, 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 cash flows;
- 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 indicates 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.

7. Criteria for reclassification

a. For non-per/orning securities

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 for the next two installments).

b. For rescheduled/restructured non-per/orning securities

The following conditions need to be met:

- The terms and conditions of rescheduled/restructured debt security are fully met for a period of at least one year;



- All the arrears (till the date of restructuring) have been received in cash;
- An amount equivalent to two installments (excluding grace period, if any) as per original repayment term (before rescheduling) are paid in cash;

However, during rescheduling/restructuring period, creation of additional provisioning against such debt security may be stopped. If the debt security subsequently does not perform as per the rescheduling/restructuring agreement, the debt security shall be treated as non-performing from the date of its original default.

8. Policy for reversal of provisioning

- The unrealized markup amount reversed shall be written back to income up to the extent it is received in cash.
- The provision made for principal amount shall be written back to the extent it is received in cash and the remaining provision shall cover the minimum provision required. The full provision shall be reversed when the debt security is reclassified as performing.
- Where the Investment Committee has provided for a security in excess of the requirements of Circular # 33 of 2012, 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

9. Policy for provisioning of exposures other than those classified as debt securities

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;

Effective Day for Provisioning	Minimum Provision as % of book value (outstanding principal amount)	Cumulative Provision
90th day	20%	20%
180th day	10%	30%
270th day	10%	40%
365th day	10%	50%
455th day	10%	60%
545th day	10%	70%
635th day	10%	80%
725th day	10%	90%
815th day	10%	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



Investment Committee. The pace of such excess provisioning may be varied based on considerations such as progress on recoverability / restructuring discussions with the counterparty – 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 for exposures other than debt securities;

- Where the provision is made against such exposure, 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 at least 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 markup 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.

MAINTENANCE AND UPDATION OF POLICY

The basic responsibility of maintenance and updating of this policy resides with the Chief Investment Officer. This Policy shall be reviewed on a periodic basis but at least once in three years and shall be updated, if required.

Subsequent updates/ amendments to the policy shall be approved by the Board. In case of no change, the policy shall even then will be placed before the Board for ratification.



AL MEEZAN INVESTMENT MANAGEMENT LIMITED WHISTLE BLOWING & PROCEDURES POLICY

1. Purpose

It is the Audit Committee's responsibility to ensure that Al Meezan Investment Management Limited has appropriate procedures for the receipt, retention, and treatment of complaints about the Corporation's accounting, internal accounting controls, or auditing matters.

In addition, the Audit Committee must provide for confidential, anonymous submission by the Corporation's employees of concerns about questionable accounting or auditing matters. The procedures outlined here under are intended to fulfill these responsibilities and to ensure that any such complaints and concerns are promptly and effectively addressed.

2. Definitions

"Anonymous" means of unknown authorship, and without designation that might lead to information about the authorship. Anonymity is not compromised by assignment of a code or other designation with which a person can communicate without revealing his or her identity.

"Complaint" means any adverse information provided to the Company, whether in the form of a concern, a demand for remedial action, or a report of a suspected violation of law or Company policy that relates to the accounting, internal accounting controls, or auditing matters.

"Confidential" means authorized for access by only those persons who have a need to know. Ordinarily, a need to know arises from an obligation to investigate or to take remedial or disciplinary action.

"Confidential Designee" means a person, independent of the financial reporting function, designated by the Audit Committee to assist the Committee to address Complaints in a manner consistent with these Procedures and the role of the Committee. Unless otherwise designated by the Committee, the Confidential Designee shall be the General Counsel of the Corporation.

"Whistle blowing" means a disclosure of information made by an employee to the Company or an external person or body when the employee reasonably believes that one or more of the following matters is happening at the moment, took place in the past or is likely to happen in the future:

- a criminal offence;
- a damage to the environment;
- a danger to the health and safety of any individual;
- suspected fraud, malpractice or breach of a code of conduct
- a failure to comply with a statutory, legal, administrative obligation
- a deliberate concealment of information tending to show any of the above



3. Policy Statement

- (i) Al Meezan Investment Management Limited (AL MEEZAN) is committed in achieving and maintaining highest standards with regard to behavior at work and all its working practices and employees are expected to conduct themselves with integrity, impartiality and honesty.
- (ii) To achieve this aim, AL MEEZAN encourages employees to report genuine concerns about malpractice, illegal acts or failures to comply with recognized standards of work without fear of reprisal or victimization should they reasonably and in good faith report such concerns.
- (iii) Only genuine concerns should be reported. Disclosures must be made in good faith with a reasonable belief that the information and any allegation in it are substantially true, and that the disclosure is not made primarily or solely for personal gain. Malicious or false allegations will be treated as a serious disciplinary offence.
- (iv) Where it is established that the allegations made were false and made maliciously, disciplinary action shall be taken against the concerned employee(s). Such disclosures will be treated as gross misconduct and may result in the dismissal of the employee(s).
- (v) AL MEEZAN reserves the right to amend the policy and procedure as necessary to meet any change in requirements.

4. Procedures

- (i) Employees are free to bring Complaints to the attention of their supervisors or the Compliance Officer. The recipients of such Complaints shall forward them promptly to the Chair of the Audit Committee and to the Confidential Designee.
- (ii) Furthermore, to ensure that Complaints can be submitted confidentially or anonymously when employee complainants so choose, the Corporation shall maintain at least two other formal means by which employees may communicate complaints:
 - (a) The interoffice mail or regular mail or other means of delivery, addressed to Registered Address of AL MEEZAN by which Complaints may be submitted in a sealed envelope marked Private and Strictly Confidential - Attention: Chair of the Audit Committee of AL MEEZAN". The same shall be forwarded unopened to the Chair of the Committee.
 - (b) An email address at which the complaints shall be forwarded. This email address shall be circulated among all employees.
- (iii) The General Counsel shall report to the Audit Committee periodically about the process for receiving Complaints so that the Committee can ensure that the process is satisfactory in its efficiency, accuracy and timeliness, protection of confidentiality, anonymity, and effectiveness



5. Resolution of Complaints

- (i) All Complaints shall be treated as confidential.
- (ii) Although a person making an anonymous Complaint may be advised that maintaining anonymity could hinder an effective investigation, the anonymity of the person making the Complaint shall be maintained until the person indicates that he or she does not wish to remain anonymous. Any system established for exchanging information with a complainant shall be designed to maintain anonymity.
- (iii) The Chair of the Audit Committee shall inform the Committee, in summary form or otherwise, of all Complaints received, with an initial assessment as to the appropriate treatment of each Complaint. Assessment, investigation, and evaluation of Complaints shall be conducted by, or at the direction of, the Audit Committee or the Confidential Designee. If the Committee deems it appropriate, the Committee may engage at the Corporation's expense independent advisors, such as outside counsel and accountants unaffiliated with the Corporation's auditor.
- (iv) An investigation will be conducted as speedily and sensitively as possible. An official written record will be kept at each stage of the procedure.
- (v) Depending on the nature and seriousness of the complaint, the person(s) against whom the allegation(s) are made may be suspended while investigations are ongoing.
- (vi) Following investigation and evaluation of a Complaint, the Chair of the Audit Committee shall report to the Committee on recommended disciplinary or remedial action, if any. The action determined by the Committee to be appropriate under the circumstances shall then be brought to the Board or to the appropriate members of Senior Management for authorization or implementation, respectively.
- (vii) If the action taken to resolve a Complaint is deemed by the Audit Committee to be material or otherwise appropriate for inclusion in the minutes of the meetings of the Committee, it shall be so noted in the minutes.
- (viii) Any effort to retaliate against any person making a Complaint in good faith is strictly prohibited and shall be reported immediately to the Chair of the Audit Committee, the Confidential Designee, or the General Counsel.
- (ix) The exact nature of any disciplinary action taken against any person will remain confidential.

6. Retention of Records of Complaints

Records pertaining to Complaints are the property of the Company and shall be retained:

- (i) In compliance with applicable laws and document retention policies;
- (ii) Subject to safeguards that ensure their confidentiality, and, where applicable, the anonymity of the person making the Complaint; and



- (iii) In such a manner as to maximize their usefulness to the Company's overall Compliance function.

MAINTENANCE AND UPDATION OF POLICY

The basic responsibility of maintenance and updating of this policy resides with the Head of Human Resources. This Policy shall be reviewed on a periodic basis but at least once in three years and shall be updated, if required.

Subsequent updates/ amendments to the policy shall be approved by the Board. In case of no change, the policy shall even then will be placed before the Board for ratification.