PAK-QATAR ASSET MANAGEMENT

Today, for a Better Tomorrow

Pak-Qatar Asset Management Company Limited

PROVISIONING POLICY

PROVISIONING POLICY FOR NON-PERFORMING EXPOSURES OF COLLECTIVE INVESTMENT SCHEMES /FUNDS UNDER MANAGEMENT OF PAK-QATAR ASSET MANAGEMENT COMPANY LIMITED.

1-INTRODUCTION

The Securities and Exchange Commission of Pakistan (the Commission), vide their Circular No.01 of 2009 dated January 06, 2009 and Circular No.13 of 2009 dated May 04, 2009 advised the Asset Management Companies to formulate comprehensive Provisioning Policy for the non-performing exposure of Collective Investment Schemes (CIS)/Funds under management with the approval of the Board of Directors.

The provision against non-performing debt securities/other exposures shall be made in accordance with approved accounting standards as applicable in Pakistan.

Approved accounting standards comprise of such International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act,2017, part VIII A of the repealed Companies Ordinance 1984, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and directives issued by the Securities and Exchange Commission of Pakistan.

Wherever the requirements of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, or directives issued by the SECP differ with the requirements of IFRS/IAS, the former shall prevail.

2-ELIGIBILITY CRITERIA FOR DEBT SECURITY AND OTHER EXPOSURE FOR MAKING PROVISION

To be eligible for making provision, a security shall be classified as follows:

Debt security means any securities issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital and includes the following:

- TFC (Including Privately Placed TFC);
- Bonds;
- Debentures;
- Sukuks (Including Privately Placed Sukuks); and
- Commercial Papers.

Other exposure includes the following:

- Certificate of Investment / Certificate of Islamic Investments;
- Certificate of Deposit;
- Certificate of Musharakas;
- Letter of Placements;
- Other Money Market Placement

3-CRITERIA FOR CLASSIFICATION AS NON - PERFORMING DEBT SECURITIES / OTHER EXPOSURES

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

4- SUSPENSION AND REVERSAL OF INTEREST / PROFIT

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 CIS shall be reversed immediately once a debt security or other exposure is classified as non-performing.

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

5-MINIMUM PROVISIONING AGAINST THE PRINICIPAL AMOUNT

- All non-performing debt securities/other exposures 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%

› In the process of arriving at minimum provisioning against non-performing debt securities as per the timeline given above, the Company 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 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 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 prescribed above, any installment of principal amount in arrears during the period of non-performance shall also be fully provided.

6-ADDITIONAL PROVISIONING/PROVISION AGAINST NON-PERFORMING DEBT SECURITIES / OTHER EXPOSURES

a) In addition to the time-based criteria as prescribed above, subjective evaluation of non-performing debt securities/other exposures shall be made for risk assessment and, where considered necessary, any debt security/other exposure will be classified, and the category of classification determined on the basis of time base criteria shall be further downgraded. Such evaluation shall be carried out on the basis of credit worthiness of the borrower, its cash flow and financial position criteria.

b) The Investment Committee of the respective Fund shall evaluate the rationale for additional provision over and above the minimum criteria against non-performing debt securities/other exposures, based on subjective evaluation, as recommended by Fund

Manager before submission to the Board Directors for their review and approval. Simultaneously same procedure to be followed for reversal of the subjective provisioning.

7-RECLASSIFICATION OF NON PERFOMING DEBT SECURITIES/OTHER EXPOSURES

a) The debt security or other exposure shall only be reclassified as performing once all the arrears have been received in cash and debt security or other exposure is regular on all payments (interest as well as principal) for the next two installments.

b) In case of non-performing debt securities or other exposure which have been rescheduled/restructured, the debt security shall only be re-classified as performing if all the following conditions are met:

i. The terms and conditions of rescheduled/restructured debt security or other exposure are fully met for a period of at least one year; and

ii. All the arrears (till the date of restructuring) have been received in cash;

iii. 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 the Company may stop creating additional provisioning against restructured/rescheduled debt security or other exposure. If the debt security or other exposure subsequently did not perform as per rescheduling/restructuring agreement the debt security or other exposure shall be treated as non-performing from date of its original default.

8-REVERSAL OF PROVISIONS

› The unrealized interest/mark-up 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 or other exposure is reclassified as performing.

9-REQUIREMENTS FOR DISCLOSURE OF THE PROVISIONING POLICY TO UNIT HOLDERS AND PROSPECTIVE INVESTORS

The provisioning policy for non-performing debt securities/other exposures as approved by the Board of Directors of the Company shall be immediately disclosed/ disseminated by the Company to the existing unit holders, prospective investors, the Trustee of the CIS/Fund and the

Commission. The same shall also be disseminated by the Company on its website. The provisioning made in light of the Provisioning Policy shall be disclosed by the AMC in the quarterly, half yearly and annual accounts of the CIS/Funds