

FAYSAL ASSET MANAGEMENT LIMITED

PROVISIONING POLICY

FOR NON PERFORMING EXPOSURES OF FUNDS UNDER MANAGEMENT

PREAMBLE

The Securities and Exchange Commission of Pakistan, vide its Circular No. 13 of 2009, requires Asset Management Companies to formulate Provisioning Policy for non-performing exposure of Collective Investment Schemes under their management. Such Policy is required to be approved by the Board of Directors of the AMC and disclosed to the investors, the trustee of the Collective Investment Scheme, the Commission and is also required to be displayed on the AMC's web-site.

DEFINITIONS

- **DEBT SECURITIES:** means any security issued by a company or body corporate for the purpose of raising funds in the form of redeemable capital and includes Term Finance Certificate (TFC's), bonds, debentures, Sukuks and commercial papers or any other security of similar nature.
- **MONEY MARKET INSTRUMENTS:** means any Money Market exposure such as Term Deposit Receipts (TDRs), Certificate of Investments (COIs), Certificate of Deposits (CODs), Certificate of Musharikas (COMs), Letter of Placement (LOP), Money Market Placements, etc.
- **OTHER EXPOSURE:** Any other exposure which the Investment Committee may decide to include from time to time.
- **EXPOSURE:** for the purpose of this policy includes Debt Securities, Money Market Instruments and Other Exposure as defined above.

ELIGIBILITY CRITERIA FOR CLASSIFICATION AS NON PERFORMING ASSET (NPA)

All exposures shall be classified as non-performing, if the interest / profit and / or principal amount is / are past or over due by 15 calendar days from the due date.

CRITERIA FOR SUSPENSION OF MARK UP

- ❖ The accrual of profit / interest shall be suspended from the first day the interest / profit payment falls due and not received.
- ❖ All interest / profit accrued and recognized in the books of the Collective Investment Schemes shall be reversed immediately once the security / instrument is classified as non-performing.

MINIMUM PROVISIONING AGAINST THE PRINCIPAL AMOUNT

All non-performing exposures whether secured or unsecured shall be provided for in accordance with the minimum provisioning criteria as specified in the Circular 01, 2009 and as amended through Circular 33, 2012. The minimum criteria as per the Circular 33, 2012 is as follow;

Effective Day for Provisioning	Minimum Provisioning as% of book value (outstanding principal amount)	Cumulative Provisioning
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

- ❖ The above minimum provisioning criteria against the principal amount shall be subject to the amendments by SECP from time to time and for which no prior approval of the Board shall be required.
- ❖ 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.
- ❖ In order to comply with the minimum provisioning requirement on the effective day, the Internal Investment Committee (IIC) may decide to spread it over the full period (or lesser) to make the required provision. The decision of provisioning by the IIC shall also be forwarded to the Board of Directors and shall be ratified by the Board in the next Board meeting.
- ❖ 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 provisioning. 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.

ADDITIONAL PROVISION AGAINST NON - PERFORMING EXPOSURES

The IIC can further provide against non-performing exposure in addition to minimum provision as specified in the Circular 01 of 2009. The IIC may approve the additional provisioning after analyzing the rational provided. For that purpose following factors may be given consideration on the date of decision;

- Significant financial difficulties of issuer

- It becomes probable that the borrower will enter bankruptcy or other financial reorganization
- Deterioration of key financial ratios
- A credit rating down grade of the issuer and / or the particular debt security
- Significant decrease in the cash flows of the issuer
- Economic conditions and outlook and its particular emphasis on the industry in which the issuer operates
- Inability to comply with the terms of other major loan agreements entered into by the company
- Significant decline in the market prices
- In adequacy of the collateral against the security.
- The disappearance of an active market for that financial asset because of financial difficulties faced by the issuer.
- Worsening operating conditions
- Any other factor that the IIC feels necessary to further provide the security

The additional provisioning may be made at once or it may be spread over a period, decided by the Internal Investment Committee (IIC).

CRITERIA FOR REVERSAL OF PROVISIONING

In case a Collective Investment Scheme has received all the arrears of interest in cash the interest amount reversed shall be written back to the extent it is received. However, if the CIS has received all the arrears of interest and the debt security has not been reclassified as performing, the suspension of interest shall continue.

REVERSAL CRITERIA OF PROVISIONING IF SECURITY WAS NOT RESTRUCTURED

01. The debt security shall only be reclassified as performing once all the arrears have received in cash and debt security is regular on all payments (interest as well as principal) for the next two installments.
02. The unrealized interest / mark up amount reversed shall be written back to income up to the extent it is received in cash.
03. The provision made for principal amount shall be written back to the extent it is received in cash and the remaining provisioning shall cover the minimum provision required. The full provision shall be reversed when the debt security is reclassified as performing.

04. REVERSAL CRITERIA IF SECURITY IS RESTRUCTURED

The debt security, earlier classified as non performing and restructured, shall only be reclassified as performing once all the following conditions are met;

01. The terms and conditions of rescheduled / restructured debt security are fully met for a period of at least one year.
02. All the arrears (till the date of restructuring) have been received in cash.

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

MARKUP ON DAILY DEPOSIT ACCOUNT MAINTAINED WITH BANKS

The IIC shall consider and approve the reversal of outstanding markup on daily product account if the same has not been received within 60 days from the end of the period to which it pertains. However, if there is any dispute in computation / calculation and / or rates, then the mark up will not be reversed till the issue resolved or otherwise approved by the Board.

WRITE-OFF OF FULLY PROVIDED EXPOSURE

Fully provided exposures shall be maintained for period of two years, thereafter the exposures (other than those in recovery suits) may be written off after obtaining specific approval of the Board of Directors.

RATIFICATION BY THE BOARD OF DIRECTORS

The total provision and the reversal under this policy shall be forwarded to the Board of Directors and shall be ratified by the Board of Directors in their next meeting.

DISCLOSURE OF PROVISIONING POLICY

The revised Provisioning Policy after the approval by the Board of Directors shall immediately be disseminated to the existing Unit Holders, Trustee(s) and the Commission.

The policy 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 require to be disclosed in the quarterly, half yearly and annual financial statements of the CIS.

DATE OF APPLICABILITY

The revised Provisioning Policy shall be effective from the date of approval of the Board of Directors i.e April 27,2013.