



**PROVISIONING POLICY
FOR NON-PERFORMING EXPOSURES
(INCLUDING DEBT SECURITIES)
FOR
COLLECTIVE INVESTMENT SCHEMES (CISs)**



1 PREAMBLE

In the recent past, the global financial meltdown occurred which resulted in the liquidity crunch and economic problems in almost all the financial markets in the world. Pakistan also got affected due to these crises apart from being affected by its domestic problems. This crises situation affected the equity and fixed income instruments including TFCs and Sukuks which were earlier considered stable and safe investment avenues.

Debt market in Pakistan was not liquid and therefore didn't depict the true fair values of the debt securities. The market forces were not appropriately adjusting prices for the default, market and credit risks associated with the corporate debt securities. This situation warranted a comprehensive policy to be in place to rightly price the instruments and the SECP took various initiatives to rightly price the instruments by taking in to account various risk factors prevalent in the market.

The SECP issued Circular No.1 dated January 6, 2009 to deal with pricing and provisioning issues. This was later on supplemented by Circular No. 6 and 13 of 2009 dated March 06, 2009 and May 4, 2009, respectively and Circular No. 3 dated January 20, 2010. Circular No.13 made it mandatory for all Asset Management Companies to formulate a comprehensive provisioning policy for making any additional provisioning over and above that laid out in Circular No.1 of 2009. On recommendations of MUFAP relating to issues faced by Asset Management Companies, SECP replaces Annexure I and II of Circular 1 of 2009 via circular No 33 of 2012 dated October 24, 2012. It also provided the minimum framework for the policy that is required to be approved by the Board of Directors of the AMC.

The Board of Directors (the Board or BoD) of AWTIL in its meeting held on _____ approved a policy for impairment of debt instruments. Now the Board considers it appropriate to approve a comprehensive provisioning policy in compliance with the requirements of Circular No.1 of 2009 and Circular No. 13 of 2009 and their subsequent amendments and clarifications from time to time. This policy supersedes the existing provisioning policy for debt instruments as approved by the Board in its meeting held on _____



2. EXPOSURES COVERED UNDER THE POLICY

For the purpose of this policy following terms have been defined and are to be understood accordingly:

2.1 DEFINITIONS:

Exposure includes both Debt Security and Other Exposure held by Collective Investment Schemes (CIS) managed by AWT Investments Limited (AWTIL).

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 (TFCs), Bonds, Debentures, Sukuks and Commercial Papers, etc. It also includes investment in PRE IPO arrangements of any of these securities.

Other Exposure means:

- a. Money Market exposure such as:
 - i Certificate of Investment (COIs),
 - ii. Certificate of Deposit (CODs).
 - iii. Certificates of Musharaka (COMs),
 - iv. Letter of Placements(LOPs),
 - v. Money Market Placements, etc. and
- b. Receivable against investment in lease finance(lease receivables); and
- c. Exposure/Placements against Term Finance Agreements/Arrangements

CRITERIA FOR CLASSIFICATION AS NON-PERFORMING

Following is the criteria for classification of exposure as non-performing:

2.2 FOR DEBT SECURITY

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

In addition to the above, in case of investment in the Pre-IPO arrangement of a Debt Security, the arrangement/security shall be classified as non-performing if its IPO is overdue by 15 calendar days from the stipulated timeline, unless the extension in IPO is mutually agreed with the issuer.

2.3 FOR OTHER EXPOSURE

Other exposure shall be classified as non-performing, if the interest / profit and / or principal amount is /are overdue by 15 calendar days from the due date.

In addition to above, Other Exposure may be classified as non-performing by a decision taken by Investment Committee (IC) based on any of the following:

- a. if there is a material breach of terms of contract/agreement/facility; and/or
- b. there is any other event adversely affecting the Other Exposure in light of any of the factors elaborated in section 3.4 below.

This decision of IC shall be placed before the Board of Directors (BoD or Board) for its subsequent ratification.



3 PROVISIONING REQUIREMENTS MINIMUM PROVISION REQUIREMENTS

Following is the minimum time based provision requirement to be followed for nonperforming Exposure:

3.1 FOR DEBT SECURITY

Minimum provisioning against a Debt Security (whether secured or unsecured) shall be made in accordance with the time based provisioning criteria laid down in Annexure II of Circular 33 of 2012 dated October 24, 2012 as given below:

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

3.2 FOR OTHER EXPOSURE

The criteria for minimum time based provisioning against non-performing Other Exposure shall be as follows:

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

However, for any particular case of Other Exposure which has been classified as nonperforming on the basis the reasons other than the actual delay in payment of the due principal and/or interest/mark up/profit, the IC may in the best interest of the unit holders consider that minimum time based provisioning need not be applied to such a non-performing exposure and propose the same to the Board for its approval. For such a case, IC will also propose other appropriate basis of provisioning which will be approved by the Board prior to applying the same.

3.3 PROVISIONING MODALITIES FOR DEBT SECURITY

- a. In order to comply with the minimum provision requirements for Debt Security as given in section 3.1 above and to ensure that the minimum provisioning requirements are met as on the effective day, the IC can exercise discretion with respect to timing of creating requisite provision such as the provision may be made immediately on the date of classification as non-performing or may be spread over the number of days, as deemed appropriate in the best interest of the unit holders. The same principal may be applied for the next time based provision slab as given in section 3.1 above.



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

3.4 FOR OTHER EXPOSURE

- a. In order to comply with the minimum provision requirements for Other Exposure as given in section 3.1 above and to ensure that the minimum provisioning requirements are met as on the effective day, the IC can exercise discretion with respect to timing of creating requisite provision such that the provision may be made immediately on the date of classification as non-performing or may be spread over the number of days etc., as deemed appropriate in the best interest of the unit holders. The same principal may be applied for the next provision slab as per the schedule of minimum provision requirement given in section 3.1 above.
- b. Where Other Exposure immediately preceding its classification as non-performing is valued at a discount (if applicable) 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 Other Exposure shall be carried at the existing value upon classification as non-performing

3.5 TREATMENT OF OVERDUE PRINCIPAL AGAINST AN EXPOSURE

In addition to the minimum provision prescribed in section 3.1 above, any installment of principal amount in arrears of an Exposure during the period of non-performance shall also be fully provided (this will not apply to the investment in the Pre-IPO arrangement of a debt security). However, principal (including any principal which was previously provided) received in the interim period shall be adjusted while calculating the amount of provision required against outstanding principal amount.

3.6 ADDITIONAL PROVISIONING REQUIREMENTS (I.E. OVER AND ABOVE MINIMUM PROVISION) FOR NON PERFORMING EXPOSURE

The IC shall continuously monitor and review the non-performing Exposure in accordance with this policy and if circumstances warrant additional provisioning over and above the minimum provisioning requirement for debt security and other exposure may be made. The circumstances may arise from any of the following factors.

- a. Financial results;
- b. Material non-compliance with the terms of agreement;
- c. Defaults or problems in other borrowings;
- d. Periodic announcements;
- e. Quality of underlying security;
- f. Rating of the issuer or the issue;
- g. Correspondence with stakeholders;
- h. Management of the company;
- i. Probability of entering into bankruptcy or other financial reorganization;
- j. Cash flow problems indicated by historical or prospective financial statements;
- k. Untoward economic conditions and outlook and its particular emphasis on the industry in which the issuer/company operates;
- l. Interest rates scenario and its affect on the business of the issuer/company;
- m. Laws & regulations and their impact on the issuer/company;
- n. Industry information & feed back;
- o. Any other applicable factor.

The decision for additional provision will be made by the IC and presented to the BoD for its subsequent ratification.



3.7 SUSPENSION OF INTEREST/PROFITS/MARK UP ON DEBT SECURITY AND OTHER EXPOSURE

3.7.1 SUSPENSION OF INTEREST/ PROFIT/ MARKUP ACCRUAL

- a. The accrual of interest / profit/ markup on Exposure shall be suspended from the first calendar day the interest / profit payment falls due and is not received.
- b. All interest / profit/ markup accrued and recognized in the books shall be immediately reversed on the date of classification of Exposure as nonperforming.

3.7.2 CONTINUATION OF SUSPENSION OF INTEREST/ PROFIT/ MARKUP ACCRUAL

The accrual of interest / profit / markup shall remain suspended till the time the Exposure is reclassified as performing. However any interest/ profit/ markup received during the interim shall be taken to income to the extent it is received.

In case Collective Investment Scheme has received all arrears of interest and debt security has not been reclassified as performing, the suspension of interest shall continue.

3.7.3 SUSPENSION OF INTEREST/ PROFIT/ MARKUP ACCRUAL

The IC based on the analysis over any of the factors given in section 3.4 of this policy may approve to stop accrual of interest/ profit/ markup for any Exposure in the best interest of the unit holders on prudent basis without classifying that Exposure as nonperforming.

4 RECLASSIFICATION OF EXPOSURE AS PERFORMING AND RELATED MATTERS

CRITERIA FOR RECLASSIFICATION OF EXPOSURE AS PERFORMING

4.1 FOR DEBT SECURITY

Debt security shall only be reclassified as performing once it performs as per the original repayment-terms and all the arrears (of interest / profit/ markup as well as principal) have been duly received in cash and debt security is regular on all payments (interest as well as principal) for the next two installments and provision made against the debt security shall be written back.

4.2 FOR A RESTRUCTURED DEBT SECURITY

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 arrears have been received in cash and Debt Security is regular on all payments (principal and/or interest/profit/markup) for the next two installments.

In case of non-performing debt securities 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 fully met for a period of atleast one year;
- ii. All the arrears (till the date of restructuring) have been received in cash, and
- iii. An amount equivalent to two installments (excluding grace period, if any) as per original repayment term (before rescheduling) are paid in cash.



The provision made for the principal amount of Debt Security shall be written back in the following manner:

- a. Where provision of principal was made due to interest / profit/ markup default only, 100% of the debt security provided for in the books shall be written back upon its reclassification as performing.
- b. Where both, principal and interest / profit/ markup were in default, 50% of the provision made in the books shall be written back on the receipt of first payment (principal and/or interest/profit/markup) and 50% on the receipt of second payment and the asset shall be classified as performing

Provision made with respect to principal (including overdue principal) shall be adjusted/written back to the extent it is received during the period of its classification as non-performing security.

IC may stop creating additional provision against restructured / rescheduled debt security during restructuring / rescheduling period.

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 default.

4.3 FOR-OTHER EXPOSURE

Other Exposure (i.e. other than Debt Security) shall be reclassified as performing once all the arrears (interest / profit/ markup as well as principal) have been received in full as per the original repayment schedule. In addition to that, IC may however decide to continue its classification as non-performing based on its analysis in light of the factors given in section 3.4 above. This continuance of non-performing classification of Other Exposure shall be done only with the prior approval of the BoD. In case the Other Exposure is kept in the non-performing category based on the approval of the BoD, all requirements for provisions shall continue to apply to such an exposure.

4.4 FOR A RESTRUCTURED OTHER EXPOSURE

If Other Exposure (i.e. other than Debt Security) is classified as non-performing and it undergoes a restructuring arrangement, it shall be reclassified as performing if it is regular on all payments as per the restructured terms (principal and/or interest/markup/profit) for

- a. Next six instalments in case the payment frequency is less than quarterly instalments;
- b. Next two instalments in case the payment frequency is equal to or exceeds quarterly instalments.

However, IC may decide to continue classification of Other Exposure as nonperforming based on its analysis in light of the factors given in section 3.4 above. This continuance of non-performing classification shall be done only with the prior approval of the BoD. In case the Other Exposure is kept classified as nonperforming based on the approval of the BoD, all requirements for provisions shall continue to apply to such an Exposure.

4.5 REVERSAL OF ADDITIONAL PROVISIONING AGAINST DEBT SECURITY AND OTHER EXPOSURE

Where the provision is made against an exposure in excess of the minimum provisioning requirements against the principal amount; the IC may decide to reverse such excess provision in light of the factors mentioned in section 3.4 above. However, the reversal shall only be to the extent that the outstanding provision meets the aforementioned requirements of the minimum provisioning against the principal amount. The reversal of additional provision shall be made with prior approval of the BoD.



5 DISSEMINATION AND EFFECTIVE DATE OF POLICY

This provisioning policy and / or any amendments therein as approved by the Board of AWTEL shall be:

- a. Disseminated to the existing Unit Holders, Trustee(s) and the Commission;
- b. Placed on the Company's website for the information of all existing and prospective investors.

Any applicable provision of and / or modification to the circulars or laws and regulations affecting this policy from time to time will be deemed to be the part of this provisioning policy.

Moreover, provisions made in light of this policy shall be disclosed in the quarterly, half yearly and annual accounts of the CISs.

The custodian of the original copy of this policy and procedures manual is the office of Company Secretary.